

Comprehensive Annual Financial Report

**For the fiscal year ended
June 30, 2003**

**Prepared by
Financial Management Services**

**State of Arizona
Department of Transportation**



Arizona Department of Transportation
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2003

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Introduction



Arizona Department of Transportation

Office of the Director

206 South Seventeenth Avenue Phoenix, Arizona 85007-3213

Victor M. Mendez
Director

Debra Brisk
Deputy Director

December 4, 2003

The Honorable Janet Napolitano
Governor of the State of Arizona,
Members of the Legislatures, and
Citizens of the State of Arizona

The Arizona Department of Transportation (Department) is pleased to submit the comprehensive annual financial report of the Department for the fiscal year ended June 30, 2003. The comprehensive annual financial report (CAFR) is presented in three sections: Introductory, Financial, and Statistical. The **Introductory Section** includes this letter of transmittal, a list of principal officials and the Department's organizational chart. The **Financial Section** includes the independent auditors' report, management's discussion and analysis, basic financial statements, notes to the financial statements, and required supplementary information. The **Statistical Section** includes additional financial information and transportation data presented on a multi-year comparative basis.

Arizona Revised Statutes, §41-1279.03, requires the state Auditor General to "conduct or cause to be conducted at least biennial financial and compliance audits of financial transactions and accounts kept by or for all state agencies subject to the Single Audit Act Amendments of 1996 (P.L. 104-156)." In fulfillment of this requirement, the Department prepared this comprehensive annual financial report, for the fiscal year ended June 30, 2003, and contracted with the independent public accounting firm of Deloitte & Touche LLP to audit the financial statements.

The objective of the independent audit was to provide a reasonable assurance that the financial statements are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Arizona Department of Transportation's financial statements for the fiscal year ended June 30, 2003, are fairly presented in conformity with accounting principles generally accepted in the United States of America (GAAP). The independent auditors' report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Department's MD&A can be found immediately following the report of the independent auditors.

The CAFR includes all funds used to record the financial activity of the Department. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Department.

To provide a reasonable basis for making these representations, the Department has established a comprehensive internal control framework that is designed both to protect the Department's assets from loss, theft, or misuse and to compile sufficiently reliable information for the preparation of the financial statements in conformity with GAAP. The Department's internal control includes both automated controls, which are an integral component of the financial accounting system, and comprehensive policies and procedures. In addition, the Department's Office of



Audit and Analysis is an independent unit that reviews accounting controls and performs operational audits of the various divisions and units of the Department. Because the cost of internal controls should not outweigh their benefits, the Department's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements.

To the best of our knowledge and belief, this financial report is complete and reliable in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds. All disclosures necessary to enable the reader to gain an understanding of the Department's financial activities have been included.

Profile of the Department

The Department was established by the state Legislature in July 1974 by combining the former Arizona Highway Department (originally established in 1927) and the state Department of Aeronautics (originally established in 1962). The Department is not legally separate from the State of Arizona's primary government. The Department's mission is to provide products and services for a safe, efficient and cost-effective transportation system that links Arizona to the global economy, promotes economic prosperity and demonstrates respect for Arizona's environment and quality of life. The Arizona Department of Transportation serves as the state's public agency to plan, develop, maintain and operate facilities for the efficient movement of people and goods by surface and air throughout the state. The Department has statutory responsibility for carrying out its programs under Arizona Revised Statutes, Titles 28, 35 and 41.

The Department receives guidance in capital planning and program development from a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) appointed by the Governor. The Transportation Board is responsible for the annual update of the Five-Year Transportation Facilities Construction Program (Program) and awards contracts each month for highway projects. This Program is a result of a transportation assessment to determine how best to safely and efficiently move goods, services and people throughout Arizona. The Transportation Board also has authority for the issuance of highway revenue and transportation excise tax bonds, grant anticipation notes, board funding obligations and approval of privatization agreements for toll facilities.

The Department is organized into three operating divisions plus a planning division: Intermodal Transportation Division, Motor Vehicle Division, Aeronautics Division and Transportation Planning Division. The Intermodal Transportation Division is responsible for the management and maintenance of the existing state highway system and related facilities as well as the location, design and construction of new highways and facilities that are a part of the state highway system. The Motor Vehicle Division regulates motor vehicles in the state, processes motor vehicle registrations and drivers' license applications, issues certificates of title for motor vehicles and also operates 23 port-of-entry stations. The Aeronautics Division coordinates general aviation in the state and is responsible for registering and licensing all general aviation aircraft, conducting the Local Airports Grant Program and representing the state at air service hearings. The Transportation Planning Division is responsible for the planning of the statewide transportation system including highways and airports, and produces an annually updated Five-Year Transportation Facilities Construction Program for the Transportation Board, from which the Transportation Board establishes the priorities for highway and airport projects within the state. In addition, the Department has a Transportation Services Group (TSG) that provides support to the Department's operating and planning divisions. Overall, the Department employs approximately 4,700 persons.

Budgetary Controls Upon receipt of the operating budget appropriations bill, allocations are made to organizational levels within each division. The result is a detailed operating budget which guides the divisions and programs in their financial operation. State funding for the Five-Year Transportation Facilities Construction Program is included in the Capital Outlay Appropriations bill, as a lump-sum budget without identifying individual projects. In the Land, Building and Improvements portion of that bill, each separate building project is identified for control purposes. This bill also provides funding for building renewal purposes.

The budgets are prepared on a cash basis except that liabilities (encumbrances) incurred before the end of the fiscal year and paid within the next calendar month are charged against that prior fiscal year's budget. With a few exceptions, such as the capital budgets, highway maintenance and special line items, state appropriations typically lapse at the end of the fiscal year.

The Department relies on the Arizona Financial Information System (AFIS) to control total expenditures by appropriation. In addition, the Department utilizes several control features in its internal accounting system (ADVANTAGE) to ensure budgetary compliance and management control. These features include: encumbrance and pre-encumbrance capabilities, appropriation allocation and control capabilities to the expense budget and organization unit level, and management control reports from the expense budget/organizational unit level, with summary reporting capabilities by program, division or appropriation.

Factors Affecting Financial Condition

Arizona Economy Fiscal year 2003 was marked by a continued weak economy with little or no job growth and geopolitical issues. These factors played a key role in both consumer and business spending habits. On the plus side, interest rates hit a 45-year low, leading Arizona consumers to refinance their homes or build new homes. The low interest rates also enticed consumers to purchase new motor vehicles.

The Department's two main funding sources, the Highway User Revenue Fund (HURF) and the Maricopa County Transportation Excise Tax posted mixed results during fiscal year 2003. HURF collections totaled \$1.132 billion, an increase of 3.7 percent over fiscal year 2002 and 0.3 percent above the forecast. Maricopa County Transportation Excise Tax collections totaled \$268.7 million, an increase of 0.4 percent over fiscal year 2002, but 2.5 percent below the forecast. The Maricopa County Transportation Excise Tax growth was the lowest since the inception of the tax in 1985.

Arizona's economy has been struggling since spring of 2001. Historically, the Arizona economy lags behind the rest of the nation during recessionary periods but outperforms most of the nation during economic growth periods. The economic uncertainty may continue through fiscal year 2004, however, Arizona should return to being one of the top states for employment, personal income and population growth within the next few years.

The Department estimates fiscal year 2004 HURF collections will reach \$1.149 billion, an increase of 3.5 percent over fiscal year 2003. The distribution of HURF revenues in fiscal year 2004 is estimated to be as follows: State Highway Fund \$556 million; Arizona cities and towns \$336 million; Arizona counties \$209 million; Department of Public Safety \$46.6 million; Economic Strength Project Fund \$1.0 million; and the Motor Vehicle Division for registration compliance \$0.4 million. The HURF average compound growth rate for fiscal years 1994 through 2003 was 4.1 percent.

For fiscal year 2004, Maricopa County Transportation Excise Tax collections are estimated to be \$277 million, an increase of 3.1 percent over fiscal year 2003. Growth in the first half of the year may be slow but then should accelerate in the second half of the year. The growth during the year will rely on the creation of new jobs and consumer spending. The Maricopa County Transportation Excise Tax average compound growth rate for fiscal years 1994 through 2003 was 7.3 percent.

Planned Construction Activity In June 2003, the Transportation Board approved a \$.943 billion Highway Construction Program as part of the Five-Year Transportation Facilities Construction Program for fiscal years 2004 through 2008. This program provides funding for highway facilities on both the National Highway System and the statewide system. The Five-Year Transportation Facilities Construction Program includes approximately: \$972 million for freeway and expressway construction in Maricopa County funded in large part from the Maricopa County Regional Area Road Fund; \$1.877 billion for system improvements, which includes \$212 million to advance freeway and expressway construction in Maricopa County; \$744 million for system preservation; and \$350 million for system management.

The Regional Freeway Program in Maricopa County that was redefined in 1995 to complete 107 miles of freeways by 2006 has been advanced and expanded to include 40 additional miles on the Santan, South Mountain (Interim), Grand Avenue and Red Mountain freeways. Under the "2007 Acceleration Plan," 147 miles of new freeways are planned to be opened by the end of 2007. Currently 99 miles have been opened to traffic and 10 more miles are under construction.

As part of the Five-Year Transportation Facilities Construction Program, the Transportation Board also adopted a \$609 million Five-Year Airport Development Program that includes 820 projects at general aviation and air carrier airports located throughout the state.

Retirement Plan The Arizona State Retirement System Board administers the Arizona State Retirement Plan (Plan), a cost sharing multi-employer public employee defined benefit plan, for the benefit of Arizona employees and employees of certain other governmental entities. Plan provisions, including death, disability, and retirement benefits, are established by state statute. Substantially all employees of the Department are covered by the Plan.

Cash Management The Cash Management unit has responsibility for the Department's investment program in cooperation with the State Treasurer's Office. The Department's policy is to invest public funds for maximum return, while maintaining the safety of investment principal and adequate liquidity to meet cash flow requirements in conformity with state statutes governing investment of the Department's funds. The emphasis of the investment program has focused on maintaining 99.5 percent of cash invested and maximizing the investment yield.

During fiscal year 2003, the Department earned over \$22.2 million in interest from its investment program. On average, 99.7 percent of the Department's average cash balance was invested during the year earning an average yield of 2.37 percent.

Risk Management The Department continues to place emphasis in the area of risk management in order to control exposure and losses. The Office of Risk Management is responsible for the coordination of all activities necessary within the Department, and, in conjunction with the state's Risk Management Division and Attorney General's Office, to investigate and defend the Department from all losses arising from tort liability claims.

The state has a self-insured retention workers' compensation program. The Department's Safety Office has increased its emphasis on training, accident investigation, and the handling of hazardous materials to minimize exposure and injury to employees.

The Department has property insurance coverage for all real property and contents with a deductible of \$100.

Other Information

Single Audit The Department is required to undergo an annual Single Audit in accordance with the provisions of the Single Audit Act Amendments of 1996 and the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." The Department's Single Audit information is included in the Single Audit of the State of Arizona for the fiscal year ended June 30, 2003.

A requirement of the Single Audit is to ensure that adequate internal control is in place and that the Department is in compliance with applicable Federal laws and regulations. The United States Department of Transportation's (U.S. DOT) Inspector General has reviewed the internal controls on several occasions. The U.S. DOT auditors typically rely on the Department's internal audit staff in determining the scope of their review.

Awards The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Arizona Department of Transportation for its comprehensive annual financial report for the fiscal year ended June 30, 2002. This was the thirteenth consecutive year that the Department has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements We would like to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. A special note of thanks is extended to the staff of Fiscal Operations and Resource Administration whose commitment, professionalism, and dedicated efforts contributed to the timely preparation of the fiscal year 2003 comprehensive annual financial report.

Respectfully Submitted,

Victor M. Mendez, Director
Arizona Department of Transportation

John E. McGee, Chief Financial Officer
Arizona Department of Transportation

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**Arizona Department of
Transportation**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



William Patrick Rosta
President

Jeffrey L. Essler
Executive Director

Arizona Department of Transportation List of Principal Officials

Victor M. Mendez
Director

Debra Brisk
Deputy Director

John A. Bogert
Chief of Staff

William J. Higgins
Acting State Engineer
Intermodal Transportation Division

Stacey K. Stanton
Assistant Director
Motor Vehicle Division

Dale Buskirk
Assistant Director
Transportation Planning Division

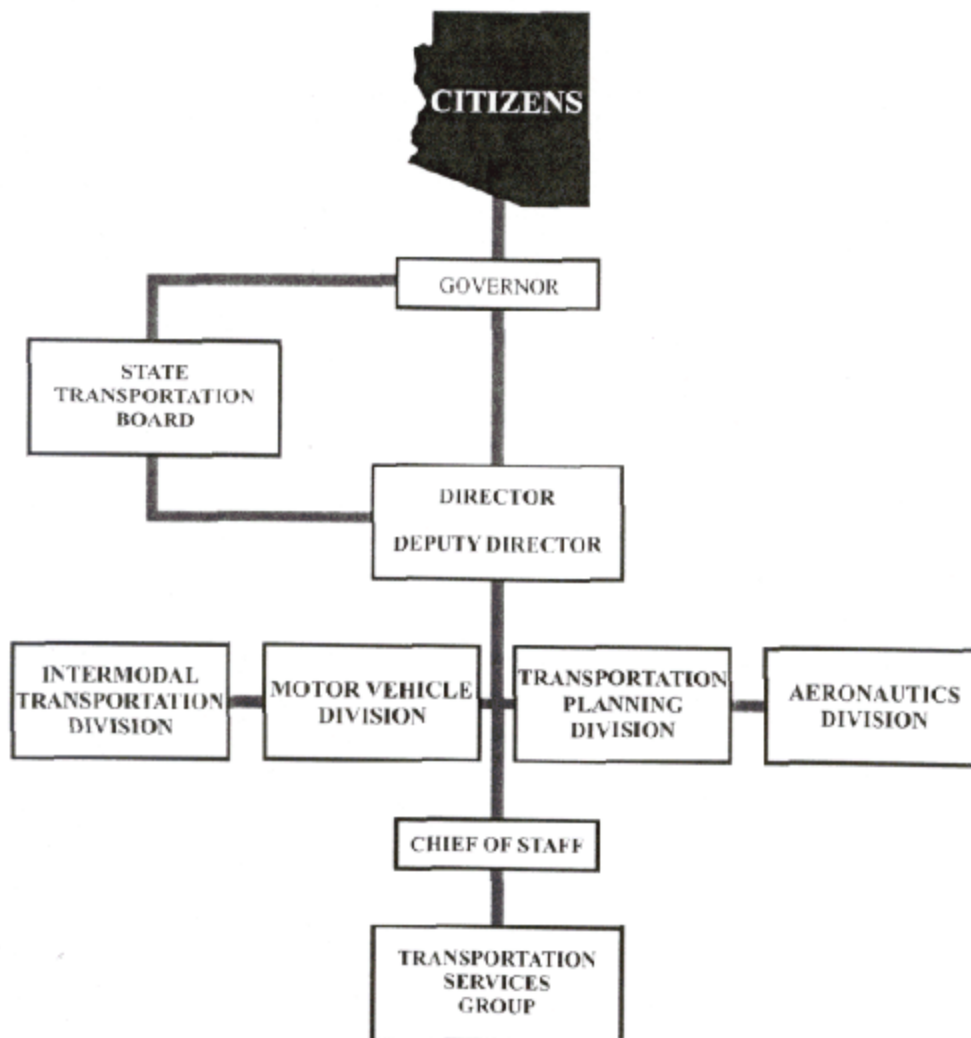
Gary Adams
Assistant Director
Aeronautics Division

John E. McGee
Chief Financial Officer

Arizona State Transportation Board

<u>Name</u>	<u>Counties</u>	<u>Term Expires</u>
Ingo Radicke, Chairman	District 4 (Gila, Graham and Pinal Counties)	2004
Bill Jeffers, Vice Chairman	District 5 (Navajo, Apache and Coconino Counties)	2005
Richard I-Eleman	District 6 (Yavapai, Yuma, Mohave, and LaPaz Counties)	2006
Dallas Gant	District 1 (Maricopa County)	2006
James W. Martin	District 3 (Cochise, Greenlee and Santa Cruz Counties)	2007
Joe Lane	District 1 (Maricopa County)	2008
S. L. Schorr	District 2 (Pima County)	2009

State of Arizona Department of Transportation Organizational Chart



Financial



Deloitte & Touche LLP
Suite 1200
2901 N. Central Avenue
Phoenix, AZ 85012-2799
USA

Tel: +1 602 234 5100
Fax: +1 602 234 5186
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Honorable Jane Dee Hull
Governor of the State of Arizona, and
Members of the Legislature

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Arizona Department of Transportation (the "Department") as of and for the year ended June 30, 2003, which collectively compose the Department's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Department of the State of Arizona (the "State") are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2003, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Department as of June 30, 2003 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4B to the basic financial statements, in fiscal year 2003, the Department changed its accounting policy related to the recording of state appropriated funds.

Member of
Deloitte Touche Tohmatsu

The management's discussion and analysis, budgetary comparison information and infrastructure assets reported using the modified approach information on pages 3 through 12, 51 through 54, and 55 through 58 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compose the Department's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financials statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, a report has been issued on the consideration of the State of Arizona's internal control over financial reporting and tests of its compliance with certain provisions of laws, regulations, contracts and grants for which Arizona Department of Transportation is a department. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

December 4, 2003

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2003

As management of the Arizona Department of Transportation (Department), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with the letter of transmittal, which can be found on pages i-v, and the Department's financial statements, which begin on page 13, with the accompanying notes and required supplementary information (RSI).

Financial Highlights

Government-wide:

- The net assets of the Department exceeded its liabilities at the close of the fiscal year by \$10.3 billion, compared to \$9.7 billion for fiscal year 2002, an increase of 6.5 percent. Of this amount, \$212.6 million represents *unrestricted net assets* and may be used to meet the Department's ongoing obligations to citizens and creditors as compared to \$221.2 million in 2002.
- The Department's investment in capital assets, net of related debt, is \$9.6 billion, compared to \$9.0 billion for fiscal year 2002, an increase of 6.7 percent. The Department's capital assets are \$11.4 billion, compared to \$10.7 billion for fiscal year 2002, an increase 6.6 percent. This increase is primarily attributable to the building of additional highways.
- The Department's non-current liabilities was \$2.0 billion, compared to \$1.9 billion for fiscal year 2002, an increase of 4.7 percent. The bonded debt increased by \$70.9 million (4.7 percent) as a result of new issuances, refundings and repayments.

Fund Level:

- As of the close of the fiscal year, the governmental funds of the Department reported combined ending fund balances of \$452.9 million, as compared to \$413.0 million in 2002, a 9.7 percent increase over the prior fiscal year. Approximately \$65.1 million (14.4 percent) is available for spending at the government's discretion (unreserved fund balance) as compared to \$90.6 (22.0 percent) in 2002. At the end of the fiscal year, the unreserved fund balance for the General Fund was \$48.7 million.
- The proprietary funds reported net assets at year-end of \$65.1 million, as compared to \$86.3 million, a decrease of \$21.1 million over the prior year. This decrease was due to distributions to other state agencies.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction of the Department's basic financial statements. The Department's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Government-wide Financial Statements (Reporting the Department as a Whole)

The government-wide financial statements are designed to present an overall picture of the financial position of the Department. These statements consist of the statement of net assets and the statement of activities and are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The statement of net assets combines and consolidates the Department's current financial resources with capital assets and long-term obligations. This statement includes all of the Department's non-fiduciary assets and liabilities. Net assets are the difference between the Department's assets and liabilities, and represent one measure of the Department's financial health.

- An increase or decrease in the Department's net assets from one year to the next is an indicator of whether its financial health is improving or declining.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2003

- Other indicators of the Department's financial health include the condition of its roads and highways (infrastructure), and economic trends affecting the Department's future tax revenues.

The statement of activities focuses on both the gross and net cost of various activities (governmental and business-type); these costs are paid by the Department's general tax and other revenues. This statement summarizes the cost of providing specific Department services, and includes all current year revenues and expenses.

The statement of net assets and the statement of activities divide the Department's activities into two types:

Governmental Activities

The Department's basic services are reported here, including administration, aeronautics, highway, highway maintenance, motor vehicle division and other activities. Taxes, fees, and federal grants finance most of these activities.

Business-Type Activities

Activities for which the Department charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The Department's *Arizona Highways Magazine* and Highway Expansion and Extension Loan Program (HELP) are reported here.

The government-wide financial statements can be found on pages 13-14 of this report.

This report includes two schedules (Exhibit 3.1 and Exhibit 4.1) that reconcile the amounts reported on the governmental fund financial statements (prepared using the modified accrual basis of accounting and current financial resources measurement focus) with governmental activities (prepared using the accrual basis of accounting and economic resources measurement focus) on the appropriate government-wide statements. The following summarizes the impact of converting to GASB 34 reporting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Other long-term assets that are not available to pay for current period expenditures are not reported on governmental fund statements.
- Internal service fund activities are reported as governmental activities, but reported as proprietary funds in the fund financial statements.
- Deferred issuance costs are capitalized and amortized to expense as governmental activities, but reported as expenditures in the governmental fund statements.
- Unless due and payable, long-term liabilities, such as capital lease obligations, compensated absences, notes payable and others, only appear as liabilities on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but are reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

Fund Financial Statements (Reporting the Department's Major Funds)

The fund financial statements begin on page 15 and provide detailed information about the major individual funds. A fund is an accounting entity with a self-balancing set of accounts that the Department uses to keep track of specific sources of funding and spending for a particular purpose. The Department, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Department can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. A majority of the Department's activities are reported in governmental funds. Reporting of these funds focuses on how financial resources flow in to and out of the funds, and amounts remaining at year-end for future spending. Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Department's general governmental operations and the basic services it provides. This information should help determine whether there are more or less current financial resources available for the Department's programs. The reconciliation following the fund financial statements explains the differences between the government's activities, reported in the government-wide statement of activities, and the governmental funds.

The Department maintains sixteen individual governmental funds. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund (State Highway Fund), Maricopa Regional Area Road Construction Fund, Motor Vehicle Division Clearing Fund, Highway User Revenue Fund, Debt Service Fund and Capital Projects Fund which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds are provided in the form of combining statements elsewhere in this report.

The legislature appropriates an annual budget for the Department's General Fund. The Schedule of Revenues and Expenditures – Budget and Actual has been provided for the General Fund to demonstrate compliance with this budget and is presented as required supplementary information.

The governmental funds financial statements can be found on pages 15-22 of this report.

Proprietary Funds. When the Department charges customers for the services it provides – whether to outside customers, other agencies or to other divisions of the Department – these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) utilize full accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. The Department's enterprise funds are the *Arizona Highways Magazine* Fund and Highway Expansion and Extension Loan Program Fund. The internal service fund reports activities that provide supplies and services for the Department's other programs and activities and other state agencies. The Equipment Fund is the Department's only internal service fund. Internal service fund activities are reported as governmental activities on the government-wide statements.

The proprietary funds financial statements can be found on pages 23-25 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's own programs.

The fiduciary fund financial statement can be found on page 26.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-50 of this report.

Arizona Department of Transportation
Management's Discussion and Analysis
June 30, 2003

Required Supplementary Information. In addition to the basic financial statements including accompanying notes, this report presents certain required supplementary information concerning the Department's Schedule of Revenues and Expenditures – Budget and Actual for the General Fund and the modified approach to reporting infrastructure assets. Required supplementary information can be found on pages 51-58 of this report.

Other Supplementary Information. Other supplementary information includes the combining statements for the non-major governmental funds, agency funds and capital assets and is presented immediately following the required supplementary information on budget and infrastructure assets. Combining and individual fund statements and schedules can be found on pages 59-66 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Department's financial health. The following tables, graphs and analysis discuss the financial position and changes to financial position for the Department as a whole as of and for the fiscal year ended June 30, 2003.

The Department's combined net assets increased by \$632.1 million over the course of this fiscal year's operations, an increase of 6.5 percent. The net assets of the governmental activities increased by \$653.3 million or 6.8 percent and business-type activities decreased by \$21.1 million or 24.5 percent.

The following table reflects the condensed Statement of Net Assets as of June 30:

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets:						
Current and other assets	\$ 851,633,105	\$ 833,488,297	\$ 220,185,188	\$ 235,245,607	\$ 1,071,818,293	\$ 1,068,733,904
Capital assets	<u>11,438,563,961</u>	<u>10,733,547,800</u>	<u>1,125,754</u>	<u>1,439,057</u>	<u>11,439,689,715</u>	<u>10,734,986,857</u>
Total assets	<u>12,290,197,066</u>	<u>11,567,036,097</u>	<u>221,310,942</u>	<u>236,684,664</u>	<u>12,511,508,008</u>	<u>11,803,720,761</u>
Liabilities:						
Other liabilities	200,791,918	213,447,052	4,484,163	4,760,226	205,276,081	218,207,278
Non-current liabilities	<u>1,817,359,577</u>	<u>1,734,806,233</u>	<u>151,696,446</u>	<u>145,670,558</u>	<u>1,969,056,023</u>	<u>1,880,476,791</u>
Total liabilities	<u>2,018,151,495</u>	<u>1,948,253,285</u>	<u>156,180,609</u>	<u>150,430,784</u>	<u>2,174,332,104</u>	<u>2,098,684,069</u>
Net assets:						
Invested in capital assets, net of related debt	9,621,204,384	8,998,741,567	1,125,754	1,439,057	9,622,330,138	9,000,180,624
Restricted	439,045,246	400,315,381	63,224,779	83,292,829	502,270,025	483,608,210
Unrestricted	211,795,941	219,725,864	779,800	1,521,994	212,575,741	221,247,858
Total net assets	<u>\$10,272,045,571</u>	<u>\$ 9,618,782,812</u>	<u>\$ 65,130,333</u>	<u>\$ 86,253,880</u>	<u>\$10,337,175,904</u>	<u>\$ 9,705,036,692</u>

The total assets of the Department were \$12.5 billion, while total liabilities were \$2.2 billion, resulting in a net assets balance of \$10.3 billion. By far, the largest portion of the Department's net assets, \$9.6 billion (93.1 percent), was invested in capital assets (e.g., land, infrastructure, buildings, machinery and equipment), net of any related debt used to acquire those assets. The Department uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

As of June 30, 2003, the Department is able to report positive balances in all three categories of net assets, both for the governmental and business-type activities. The same situation held true for the prior fiscal year.

There was a decrease of \$20.1 million in restricted net assets for the Department's business-type activities. The bulk of this decrease was due to a \$20.0 million distribution from the Highway Expansion and Extension Loan Program Fund to other state agencies.

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The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Department's net assets changed during the year:

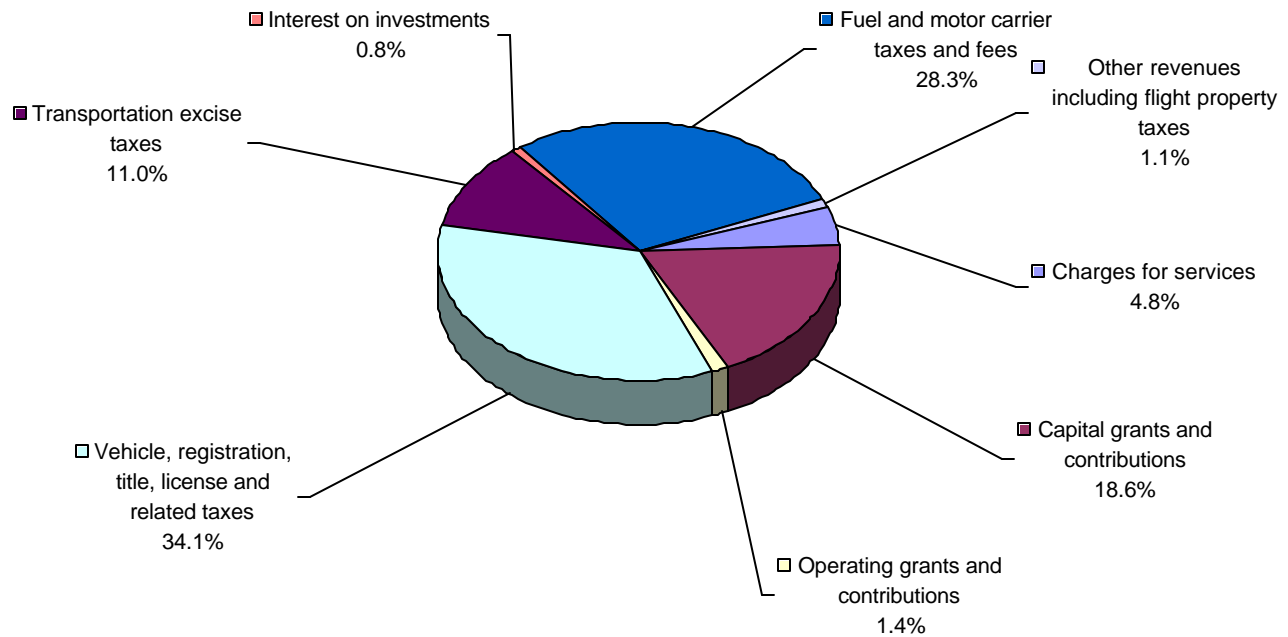
	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	\$ 117,412,098	\$ 112,724,784	\$ 13,477,401	\$ 11,840,350	\$ 130,889,499	\$ 124,565,134
Operating grants and contributions	34,160,325	56,480,747	-	-	34,160,325	56,480,747
Capital grants and contributions	453,757,521	470,771,977	-	-	453,757,521	470,771,977
General revenues:					-	-
Transportation excise taxes	268,720,901	267,563,343	-	-	268,720,901	267,563,343
Vehicle, registration, title, license and related taxes	832,492,117	899,092,103	-	-	832,492,117	899,092,103
Fuel and motor carrier taxes and fees	691,003,491	547,129,189	-	-	691,003,491	547,129,189
Flight property taxes	6,026,213	6,528,347	-	-	6,026,213	6,528,347
Interest on investments	19,802,902	29,862,802	2,440,375	5,624,632	22,243,277	35,487,434
Other	21,303,653	26,484,086	425,219	381,360	21,728,872	26,865,446
Total revenues	2,444,679,221	2,416,637,378	16,342,995	17,846,342	2,461,022,216	2,434,483,720
Expenses:						
Administration	52,533,318	57,864,409	-	-	52,533,318	57,864,409
Aeronautics	3,848,091	3,750,673	-	-	3,848,091	3,750,673
Highway	45,643,844	46,543,229	-	-	45,643,844	46,543,229
Highway Maintenance	96,352,820	91,569,523	-	-	96,352,820	91,569,523
Motor Vehicle	83,090,207	82,904,097	-	-	83,090,207	82,904,097
Other	8,460,021	6,844,145	-	-	8,460,021	6,844,145
Highway Maintenance - asset preservation	268,383,806	89,146,668	-	-	268,383,806	89,146,668
Transportation - not appropriated by State legislature	9,590,932	7,482,406	-	-	9,590,932	7,482,406
Distributions to Arizona counties and cities	957,056,532	915,219,274	-	-	957,056,532	915,219,274
Distributions to other state agencies	192,536,424	149,340,401	-	-	192,536,424	149,340,401
Intergovernmental	30,235,385	24,791,275	-	-	30,235,385	24,791,275
Interest on long-term debt	84,083,940	89,604,704	-	-	84,083,940	89,604,704
Arizona Highways Magazine	-	-	11,118,003	10,710,728	11,118,003	10,710,728
Highway Expansion and Extension Loan Program	-	-	26,348,539	5,264,722	26,348,539	5,264,722
Total expenses	1,831,815,320	1,565,060,804	37,466,542	15,975,450	1,869,281,862	1,581,036,254
Change in net assets before accounting change	612,863,901	851,576,574	<21,123,547>	1,870,892	591,740,354	853,447,466
Cumulative effect of accounting change	40,398,858	-	-	-	40,398,858	-
Change in net assets	653,262,759	851,576,574	<21,123,547>	1,870,892	632,139,212	853,447,466
Net assets - July 1	9,618,782,812	8,767,206,238	86,253,880	84,382,988	9,705,036,692	8,851,589,226
Net assets - June 30	<u>\$ 10,272,045,571</u>	<u>\$9,618,782,812</u>	<u>\$ 65,130,333</u>	<u>\$ 86,253,880</u>	<u>\$ 10,337,175,904</u>	<u>\$ 9,705,036,692</u>

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Governmental Activities:

The following chart depicts revenues of the governmental activities for the fiscal year ended June 30, 2003:

Revenues - Governmental Activities



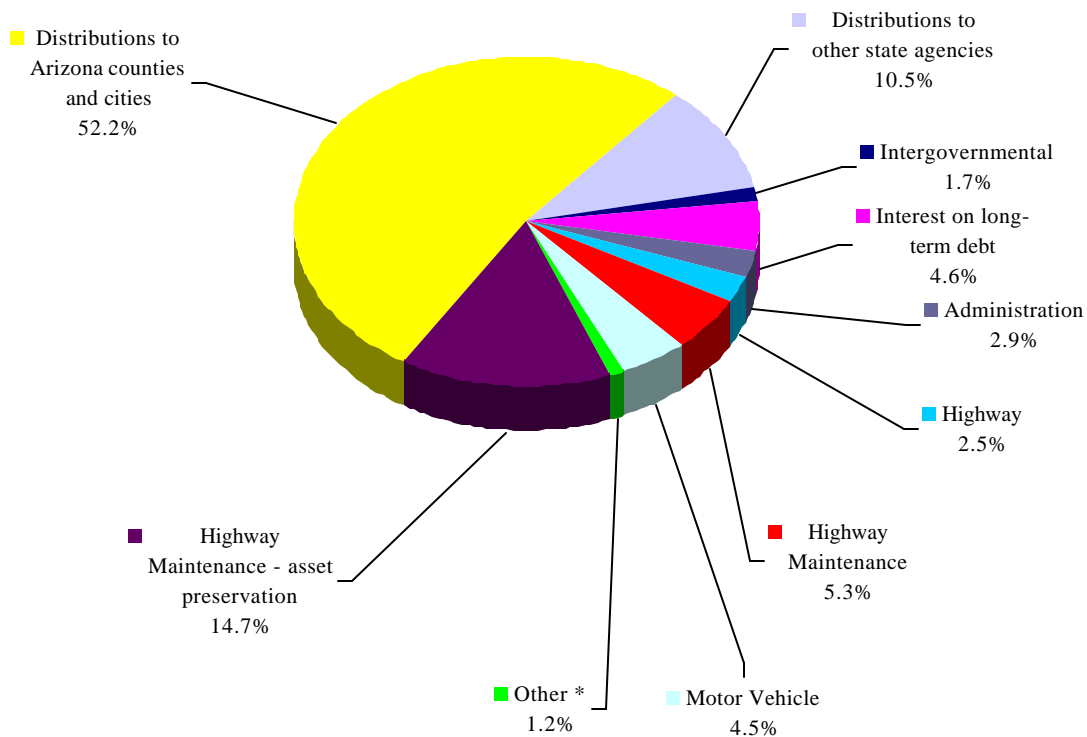
\$2.2 billion (or 91.9 percent) of the Department's revenues are from the following four revenue sources:

- Vehicle, registration, title, license and related taxes represent the Department's largest revenue source of \$832.5 million (34.1 percent).
- Fuel and motor carrier taxes and fees represent the Department's second largest revenue source of \$691.0 million (28.3 percent).
- Capital grants and contributions represent the Department's third largest revenue source of \$453.8 million (18.6 percent).
- Transportation excise taxes represent the Department's fourth largest revenue source of \$268.7 million (11.0 percent).

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The following chart depicts expenses of the governmental activities for the fiscal year ended June 30, 2003:

Expenditures - Governmental Activities



*Other includes expenditures for Aeronautics and Transportation – not appropriated by State legislature

\$1.4 billion (or 77.4 percent) of the Department's expenditures were for the following:

- Distributions to Arizona counties and cities \$957.0 million (52.2 percent).
- Highway Maintenance – asset preservation \$268.4 million (14.7 percent).
- Distributions to other state agencies \$192.5 million (10.5 percent).

Business-type Activities:

Net assets for business-type activities decreased by \$21.1 million during the fiscal year. Of the total revenues of \$16.3 million, charges for services represented 82.5 percent and interest on investments 14.9 percent. The total expenses for business-type activities were \$37.5 million. Factors contributing to these results included:

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- The Arizona Highways Magazine's deficit of \$1.1 million. Half of this deficit is due to a distribution to other state agencies and the remaining deficit is attributable to a decrease in magazine sales as a result of the down turn in the economy.
- The Highway Expansion and Extension Loan Program's decline of \$20.1 million. This deficit also is due to a distribution to other state agencies.

Financial Analysis of the Department's Funds

As previously mentioned, the Department uses fund accounting to ensure and demonstrate compliance with budgetary and legal requirements. The following is a brief discussion of financial highlights from the fund financial statements.

Governmental Funds. The focus of the Department's governmental funds financial statements (pages 15-22) is to provide information on near-term inflows, outflows, and balances of spendable resources. All major governmental funds are discretely presented on these financial statements, while the nonmajor governmental funds are combined into a single column. Combining statements for the non-major governmental funds may be found on pages 59-62.

As of the end of the fiscal year, the fund balances of the governmental funds totaled \$452.9 million, an increase of \$39.9 million over the previous fiscal year. Of this balance, \$65.1 million or 14.4 percent constitutes unreserved fund balance, which was available for spending for the general purposes of the Department. The remaining fund balance of \$387.8 million, or 85.6 percent, was reserved for the following: 1) \$4.7 million for inventories, 2) \$20.0 million to liquidate an interfund receivable to the HELP, 3) \$20.8 million to pay debt service, and 4) \$342.3 million to pay for capital projects.

The General Fund is the main operating fund of the Department. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$48.7 million and the reserved fund balance was \$134.9 million. As a measure of the General Fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. Unreserved fund balance represents 5.1 percent of total General Fund expenditures, while total fund balance represents 19.2 percent of the same amount.

Capital Assets and Debt Administration

Capital Assets (Note 5A):

The Department's investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$11.4 billion (net of accumulated depreciation), a \$.7 billion increase over the previous fiscal year.

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 1,839,172,464	\$ 1,715,941,418	\$ 7,900	\$ 7,900	\$ 1,839,180,364	\$ 1,715,949,318
Buildings and improvements	96,966,010	97,635,066	311,784	345,600	97,277,794	97,980,666
Improvements other than buildings	31,619,008	31,703,310	-	-	31,619,008	31,703,310
Mobile fleet and aircraft	37,739,350	41,995,018	-	-	37,739,350	41,995,018
Machinery and equipment	15,757,141	16,280,578	806,070	1,085,557	16,563,211	17,366,135
Infrastructure	7,564,772,978	7,444,327,275	-	-	7,564,772,978	7,444,327,275
Construction in progress	<u>1,852,537,010</u>	<u>1,385,665,135</u>	<u>-</u>	<u>-</u>	<u>1,852,537,010</u>	<u>1,385,665,135</u>
Total	<u>\$ 11,438,563,961</u>	<u>\$10,733,547,800</u>	<u>\$ 1,125,754</u>	<u>\$ 1,439,057</u>	<u>\$11,439,689,715</u>	<u>\$10,734,986,857</u>

As provided by GASB 34, the Department has elected to record its infrastructure assets using the modified approach. Assets accounted for under the modified approach include approximately 6,801 centerline miles (18,129 travel lane miles) and 4,463 bridges that the Department is responsible for maintaining.

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The Department manages its roads using the Present Serviceability Rating (PSR), which measures the condition of the pavement and its ability to serve the traveling public. The PSR uses a five-point scale (5 excellent, 0 impassable) to characterize the condition of the roadway. The Department's serviceability rating goal is 3.23 for the overall system. The most recent assessment indicated that an overall rating of 3.6 was achieved for fiscal year 2003.

The Department manages its bridges using the Arizona Bridge Information and Storage System (ABISS). The Department determines the condition rating based on standards developed by the Federal Highway Administration and additional internal criteria. It is the policy of the Department to maintain a Condition Rating Index (CRI) of 92.5 percent or better. In fiscal year 2003, a CRI of 93.9 percent was obtained.

In addition to many smaller projects, each of the following major highway construction projects in excess of \$20 million were started during fiscal year 2003:

Project Description	Contract Start	Contract Amount
Construction on State Route 260 in the vicinity of Camp Verde	10/24/2002	\$23,376,195
Construction of a four lane divided highway on the Kohl's Ranch section of State Route 260	5/13/2003	\$22,785,441
Construction of two overpasses on Grand Avenue (US 60); one at 43rd Avenue and Camelback Road and another at 51st Avenue and Bethany Home Road	12/24/2002	\$20,180,265
Construction of the Santan Freeway (Loop 202) from Dobson Road to Arizona Avenue	6/25/2003	\$31,919,593
Construction of HOV lanes, roadway and drainage improvements on SR 51, from Interstate 10 to Shea Boulevard	1/22/2003	\$84,925,003

Non-Current Liabilities (Note 5G):

Governmental Activities	
Highway revenue bonds	\$ 932,700,000
Transportation excise tax revenue bonds	488,400,000
Grant anticipation notes	169,145,000
Premium on bonds	34,422,663
Compensated absences	11,337,254
Capital leases	916,184
Notes payable	180,438,476
Total governmental activities	1,817,359,577
Business-type Activities	
Compensated absences	151,380
Notes payable	151,545,066
Total Business-type Activities	151,696,446
Total Non-Current Liabilities	<u>\$ 1,969,056,023</u>

As of June 30, 2003, the Department had \$1.59 billion in outstanding bonds payable. This total includes \$932.7 million in Highway Revenue Bonds (HURF), \$488.4 million in Transportation Excise Tax Revenue Bonds (RARF) and \$169.1 million in Grant Anticipation Notes (GANs). The Department has \$34.4 million in unamortized

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premium on bonds. The Department had capital leases outstanding of \$.9 million for acquisition of data processing equipment and notes payable of \$332.0 million for the following:

1. General Fund - \$108,270,286 for loans from the HELP Fund and \$61,867,175 for principal and interest for Board Fund Obligations (BFO) for highway construction.
2. Maricopa Regional Area Road Construction Fund - \$8,031,335 for a loan from the City of Mesa for advance construction of a section of Loop 202.
3. Equipment Fund - \$2,269,680 for purchase of snow plows using capital leases.
4. HELP Fund - \$151,545,066 for principal and interest for BFO used for capitalizing Arizona's State Infrastructure Bank.

The bonds have been sold in 30 separate issues between 1986 and 2003. All bonds outstanding as of June 30, 2003, are scheduled to mature not later than July 1, 2022. The bonds are obligations of the Transportation Board and are not obligations of the State of Arizona.

Of the \$4.6 billion total in bonds issued between 1986 and 2003, \$1.3 billion, or approximately 28 percent, have been refunding issues to lower debt service costs. These efforts have resulted in cumulative debt service savings of \$67.0 million in current dollars and \$47.8 million on a present value basis.

The senior lien HURF bonds have been rated AAA/Aa1 by Standard & Poor's Rating Services Group and Moody's Investors Service, respectively. The Department's subordinate lien HURF bonds are rated AA/Aa2. The senior lien RARF bonds are rated AA/Aa2, while the subordinate lien RARF bonds are rated A/Aa3. The Grant Anticipation Notes are rated AA-/Aa3/AA with the additional rating provided by Fitch Ratings.

Laws 1999, Chapter 189 (SB 1201), Arizona Revised Statute 28-7678, authorized the Transportation Board to issue nonnegotiable Board Funding Obligations (BFOs) for purchase by the Arizona State Treasurer. The law restricts the Transportation Board to issuing \$100 million in fiscal years 2000, 2001 and 2004. The BFOs are used to capitalize Arizona's State Infrastructure Bank, which allows the Department and political subdivisions to apply for loans from the HELP Fund established by this legislation.

Laws 2001, Chapter 238 (HB 2636), Arizona Revised Statute 28-7510, increased the HURF bonding cap to \$1 billion from \$800 million. Additionally, the legislation authorized the Transportation Board to issue an additional \$100 million in BFOs in fiscal year 2002 and increased the BFO authority in fiscal year 2004 to \$200 million from \$100 million. The distribution of this additional BFO authority is \$60 million to the State Highway Fund and \$40 million to the HELP Fund in fiscal years 2002 and 2004.

Laws 2003, Chapter 4 (HB 2588), Arizona Revised Statute 28-7510, increased the HURF bonding cap to \$1.3 billion from \$1.0 billion.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with an overview of the Department's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Controller, Arizona Department of Transportation, 206 S. 17th Avenue, Phoenix, Arizona, 85007 or by visiting our website at <http://www.dot.state.az.us/ABOUT/fms/cafr/cindex.htm>.

Basic Financial Statements

Government-wide Financial Statements include the Statement of Net Assets and Statement of Activities and uses the accrual basis of accounting for financial reporting.

Governmental Fund Financial Statements include the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the major governmental funds and uses the modified basis of accounting for financial reporting. Also includes the reconciliation to the government-wide financial statements.

Proprietary Fund Financial Statements include the Statement of NetAssets, Statement of Revenues, Expenses and Changes in Fund Net Assets and Statement of Cash Flows for the business-type activities and uses the accrual basis accounting for financial reporting.

Statement of Fiduciary Net Assets include the Statement of Net Assets for assets being held for parties outside of the Department.

Notes to the Financial Statements

Arizona Department of Transportation
Statement of Net Assets
June 30, 2003

	Governmental Activities	Business-type Activities	Total
ASSETS			
Unrestricted cash on deposit with the State Treasurer	\$ 154,330,482	\$ 1,559,016	\$ 155,889,498
Receivables:			
Notes and loans	9,854,413	136,882,915	146,737,328
Subscriptions, net of allowance for doubtful accounts	-	438,764	438,764
Accrued interest	2,294,300	256,740	2,551,040
Taxes and fees	68,682,711	-	68,682,711
Other, net of allowance for doubtful accounts	8,512,849	45,322	8,558,171
Due from U.S. Government for reimbursable construction costs	69,928,896	-	69,928,896
Due from other state agencies	303,917	380,496	684,413
Internal balances	18,731,249	<18,731,249>	-
Inventories	7,064,928	2,659,047	9,723,975
Prepaid items	-	683,969	683,969
Deferred charges	3,049,126	-	3,049,126
Restricted cash on deposit with the State Treasurer	508,880,234	96,010,168	604,890,402
Capital assets not subject to depreciation (Note 5A)	11,256,482,452	7,900	11,256,490,352
Capital assets subject to depreciation, net of accumulated depreciation (Note 5A)	182,081,509	1,117,854	183,199,363
Total assets	<u>12,290,197,066</u>	<u>221,310,942</u>	<u>12,511,508,008</u>
LIABILITIES			
Accounts payable and other current liabilities	6,154,254	122,789	6,277,043
Accrued payroll and other accrued expenses	5,279,742	118,243	5,397,985
Contracts and retainage payable	86,041,430	-	86,041,430
Due to Arizona counties and cities	96,472,721	-	96,472,721
Due to other state agencies	6,843,771	-	6,843,771
Deferred revenues (Note 5C)	-	4,243,131	4,243,131
Non-current liabilities (Note 5H):			
Due within one year	417,689,304	151,696,446	569,385,750
Due in more than one year	1,399,670,273	-	1,399,670,273
Total liabilities	<u>2,018,151,495</u>	<u>156,180,609</u>	<u>2,174,332,104</u>
NET ASSETS			
Invested in capital assets, net of related debt	9,621,204,384	1,125,754	9,622,330,138
Restricted for:			
Loans and other financial assistance	-	63,224,779	63,224,779
Debt service	21,602,726	-	21,602,726
Capital projects	417,442,520	-	417,442,520
Unrestricted	211,795,941	779,800	212,575,741
Total Net Assets	<u>\$ 10,272,045,571</u>	<u>\$ 65,130,333</u>	<u>\$ 10,337,175,904</u>

The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Statement of Activities
For the fiscal year ended June 30, 2003

Functions/Programs	Expenses	Program Revenues			Net <Expenses> Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Administration	\$ 52,533,318	\$ -	\$ -	\$ -	\$ <52,533,318>
Aeronautics	3,848,091	717,168	-	241,996	<2,888,927>
Highway	45,643,844	-	8,721,239	453,515,525	416,592,920
Highway Maintenance	96,352,820	-	-	-	<96,352,820>
Motor Vehicle	83,090,207	107,395,461	-	-	24,305,254
Other	8,460,021	4,219,205	-	-	<4,240,816>
Highway Maintenance - asset preservation	268,383,806	-	-	-	<268,383,806>
Transportation - not appropriated by State legislature	9,590,932	-	-	-	<9,590,932>
Distributions to Arizona counties and cities	957,056,532	-	-	-	<957,056,532>
Distributions to other state agencies	192,536,424	-	-	-	<192,536,424>
Intergovernmental	30,235,385	5,080,264	25,439,086	-	283,965
Interest on long-term debt	84,083,940	-	-	-	<84,083,940>
Total governmental activities	<u>1,831,815,320</u>	<u>117,412,098</u>	<u>34,160,325</u>	<u>453,757,521</u>	<u><1,226,485,376></u>
Business-type Activities:					
Arizona Highways Magazine	11,118,003	9,596,162	-	-	<1,521,841>
Highway Expansion and Extension Loan Program	<u>26,348,539</u>	<u>3,881,239</u>	<u>-</u>	<u>-</u>	<u><22,467,300></u>
Total business-type activities	<u>37,466,542</u>	<u>13,477,401</u>	<u>-</u>	<u>-</u>	<u><23,989,141></u>
Total	<u>\$ 1,869,281,862</u>	<u>\$ 130,889,499</u>	<u>\$ 34,160,325</u>	<u>\$ 453,757,521</u>	<u>\$ <1,250,474,517></u>
			Governmental Activities	Business-type Activities	Total
Net <expenses>			\$ <1,226,485,376>	\$ <23,989,141>	\$ <1,250,474,517>
General revenues:					
Transportation excise taxes			268,720,901	-	268,720,901
Vehicle, registration, title, license and related taxes			832,492,117	-	832,492,117
Fuel and motor carrier taxes and fees			691,003,491	-	691,003,491
Flight property taxes			6,026,213	-	6,026,213
Interest on investments			19,802,902	2,440,375	22,243,277
Other			21,303,653	425,219	21,728,872
Total general revenues			<u>1,839,349,277</u>	<u>2,865,594</u>	<u>1,842,214,871</u>
Change in net assets before accounting change			612,863,901	<21,123,547>	591,740,354
Cumulative effect of accounting change (Note 4B)			40,398,858	-	40,398,858
Change in net assets			653,262,759	<21,123,547>	632,139,212
Net assets - July 1			<u>9,618,782,812</u>	<u>86,253,880</u>	<u>9,705,036,692</u>
Net assets - June 30			\$ 10,272,045,571	\$ 65,130,333	\$ 10,337,175,904

The notes to the financial statements are an integral part of this statement.

Governmental Fund Financial Statements

MAJOR FUNDS

General Fund (State Highway Fund)

This fund is used to account for all financial transactions applicable to the general operations of the Department. The fund receives money from the Highway User Revenue Fund for vehicle registration, title, license and related fees and fuel and motor carrier taxes. Reimbursements for certain construction expenditures are received from the federal government, Arizona cities and counties, and other state agencies. The fund also receives interest and other revenues. The fund disburses money primarily for the engineering, construction, improvement and maintenance of state highways, parts of highways forming state routes and highways under cooperative agreements with the United States.

Maricopa Regional Area Road Construction Fund

This fund receives Maricopa County transportation excise tax monies collected by the Department of Revenue. These monies are used for the construction of certain state highways within Maricopa County.

Motor Vehicle Division Clearing Fund

This fund accounts for the collection and disbursement of Motor Vehicle Division revenues.

Highway User Revenue Fund

This fund collects motor vehicle and liquid use fuel taxes and receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed to the State Highway Fund, the Department of Public Safety, the Arizona State Parks, the Economic Strength Project Fund, and incorporated cities and counties.

Debt Service Fund

This fund is used to administer all payments of principal and interest on bonds and notes issued by Arizona Department of Transportation Board for Highway Revenue Bonds, Arizona Transportation Excise Tax Revenue Bonds, and Grant Anticipation Notes.

Capital Projects Fund

This fund is used to administer bond proceeds for Arizona Transportation Board Highway Revenue Bonds, Arizona Transportation Excise Tax Revenue Bonds, Grant Anticipation Notes and Board Funding Obligations. These monies are expended for the construction of federal, state and local highways within the state.

NON-MAJOR FUNDS

Other Governmental Funds are the non-major funds and are all special revenue funds. These funds can be found on Exhibit 9 and Exhibit 10.

Arizona Department of Transportation
Balance Sheet
Governmental Funds
June 30, 2003

	Special Revenue Funds				
	General Fund (State Highway Fund)	Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund	Debt Service Fund
ASSETS					
Unrestricted cash on deposit with the State Treasurer	\$ 135,587,075	\$ -	\$ -	\$ -	\$ -
Receivables:					
Accrued interest	519,719	70,867	-	140,336	951,906
Interfund	103,504,830	-	-	19,855,426	-
Taxes and fees	-	-	9,898,405	58,784,306	-
Notes and loans	1,872,566	2,988,149	-	-	-
Other	4,376,755	584,969	-	-	-
Amounts due from:					
U.S. Government	67,767,176	26,867	-	-	-
Other state agencies	250,696	-	-	-	-
Inventories	4,692,945	-	-	-	-
Restricted cash on deposit with the State Treasurer	110,244,788	81,824,091	25,833,363	86,341,112	17,593,100
Total assets	<u>\$ 428,816,550</u>	<u>\$ 85,494,943</u>	<u>\$ 35,731,768</u>	<u>\$ 165,121,180</u>	<u>\$ 18,545,006</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 1,700,008	\$ 2,244	\$ 1,877,823	\$ -	\$ -
Accrued payroll and other accrued expenditures	6,926,653	-	-	-	-
Contracts and retainage payable	62,204,676	7,704,197	-	-	-
Interfund payables	1,401,209	-	19,936,487	83,386,196	-
Amounts due to:					
Arizona counties and cities	-	-	11,925,878	81,734,984	-
Other state agencies	331,374	-	920,880	-	-
Surety and rental deposits	608,440	-	1,070,700	-	-
Deferred revenue	1,872,566	2,988,149	-	-	-
Notes payable	170,137,461	8,031,334	-	-	-
Total liabilities	<u>245,182,387</u>	<u>18,725,924</u>	<u>35,731,768</u>	<u>165,121,180</u>	<u>-</u>
Fund balances:					
Reserved for:					
Inventories	4,692,945	-	-	-	-
Interfund receivables	20,000,000	-	-	-	-
Debt service	-	-	-	-	18,545,006
Capital projects	110,244,788	66,769,019	-	-	-
Unreserved reported in:					
General fund	48,696,430	-	-	-	-
Non-major special revenue funds	-	-	-	-	-
Total fund balances	<u>183,634,163</u>	<u>66,769,019</u>	<u>-</u>	<u>-</u>	<u>18,545,006</u>
Total liabilities and fund balances	<u>\$ 428,816,550</u>	<u>\$ 85,494,943</u>	<u>\$ 35,731,768</u>	<u>\$ 165,121,180</u>	<u>\$ 18,545,006</u>

The notes to the financial statements are an integral part of this statement.

Capital Projects Fund	Other Governmental Funds (See Exhibit 9)	Total Governmental Funds
\$ -	\$ 15,838,121	\$ 151,425,196
470,103	130,358	2,283,289
-	93,720	123,453,976
-	-	68,682,711
-	4,993,698	9,854,413
-	3,551,125	8,512,849
-	2,134,853	69,928,896
-	53,221	303,917
-	-	4,692,945
173,152,912	13,890,868	508,880,234
<u>\$ 173,623,015</u>	<u>\$ 40,685,964</u>	<u>\$ 948,018,426</u>
\$ 511,907	\$ 166,347	\$ 4,258,329
-	98,648	7,025,301
13,424,316	2,774,381	86,107,570
-	-	104,723,892
-	2,811,859	96,472,721
-	5,591,517	6,843,771
-	-	1,679,140
-	4,993,698	9,854,413
-	-	178,168,795
<u>13,936,223</u>	<u>16,436,450</u>	<u>495,133,932</u>
-	-	4,692,945
-	-	20,000,000
-	2,240,673	20,785,679
159,686,792	5,623,184	342,323,783
-	-	48,696,430
-	16,385,657	16,385,657
159,686,792	24,249,514	452,884,494
<u>\$ 173,623,015</u>	<u>\$ 40,685,964</u>	<u>\$ 948,018,426</u>

Arizona Department of Transportation
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 June 30, 2003

Total fund balances - governmental funds (Exhibit 3)	\$ 452,884,494
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (Note 4C).	11,399,871,230
Internal service funds are used by management to charge the costs of equipment rentals to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets (Exhibit 5).	40,733,349
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds (Note 4C).	9,854,413
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds (Note 4C).	<u><1,631,297,915></u>
Net assets of governmental activities (Exhibit 1)	<u><u>\$ 10,272,045,571</u></u>

The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2003

	General Fund (State Highway Fund)	Special Revenue Funds		
		Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund
Revenues:				
Transportation excise taxes	\$ -	\$268,720,901	\$ -	\$ -
Vehicle registration, title, license and related taxes and fees	235,005,553	-	187,081,179	471,691,029
Fuel and motor carrier taxes and fees	306,039,653	-	265,376,535	117,811,745
Reimbursement of construction expenditures - federal aid	380,890,972	31,053,085	-	-
Other federal grants and reimbursements	6,895,652	-	-	-
Reimbursements from Arizona counties and cities	15,943,303	-	-	-
Reimbursements from other state agencies	-	3,794,763	-	-
Distributions from other state agencies	1,284,044	-	-	-
Interest on loans receivable	1,626,928	608,611	-	-
Interest on investments	8,600,892	1,265,657	-	1,101,748
Flight property taxes	-	-	-	-
Grand Canyon National Park Airport	-	-	-	-
Sale of capital assets	1,713,913	5,514,666	-	-
Rental income	1,184,752	447,243	-	-
Insurance recovery	1,081,803	-	-	-
Other	3,237,952	360,869	92,001	2,118,629
Total revenues	<u>963,505,417</u>	<u>311,765,795</u>	<u>452,549,715</u>	<u>592,723,151</u>
Expenditures:				
Current:				
Transportation - appropriated by State legislature:				
Administration	51,484,986	-	-	-
Highway	44,008,345	-	-	-
Highway maintenance	94,977,822	-	-	-
Motor Vehicle	77,487,708	-	-	-
Aeronautics	-	-	-	-
Other	1,747,235	431,569	-	-
Total Transportation - appropriated by State legislature	<u>269,706,096</u>	<u>431,569</u>	<u>-</u>	<u>-</u>

The notes to the financial statements are an integral part of this statement.

Debt Service Fund	Capital Projects Fund	Other Governmental Funds (See Exhibit 10)	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 268,720,901
-	-	46,244,728	940,022,489
-	-	1,640,647	690,868,580
-	-	47,514,484	459,458,541
-	-	-	6,895,652
-	-	-	15,943,303
-	-	5,080,264	8,875,027
-	-	-	1,284,044
-	-	250,137	2,485,676
4,753,138	3,486,931	493,168	19,701,534
-	-	6,026,213	6,026,213
-	-	717,168	717,168
-	-	-	7,228,579
-	-	-	1,631,995
-	-	-	1,081,803
-	-	211,096	6,020,547
<u>4,753,138</u>	<u>3,486,931</u>	<u>108,177,905</u>	<u>2,436,962,052</u>
-	-	-	51,484,986
-	-	30,235,385	74,243,730
-	-	-	94,977,822
-	-	4,029,702	81,517,410
-	-	3,579,192	3,579,192
<u>121,748</u>	<u>-</u>	<u>3,283</u>	<u>2,303,835</u>
<u>121,748</u>	<u>-</u>	<u>37,847,562</u>	<u>308,106,975</u>

(continued)

Arizona Department of Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2003

	General Fund (State Highway Fund)	Special Revenue Funds		
		Maricopa Regional Area Road Construction Fund	Motor Vehicle Division Clearing Fund	Highway User Revenue Fund
Transportation - not appropriated by State legislature	\$ 9,594,090	\$ -	\$ -	\$ -
Distributions to Arizona counties and cities	-	7,502,057	410,049,076	526,536,488
Distributions to other state agencies	40,302,383	-	42,500,639	66,186,663
Interest on notes payable	2,779,516	-	-	-
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
Bond issuance costs	-	-	-	-
Highway maintenance - asset preservation	125,327,622	12,445,854	-	-
Capital outlay	507,292,216	93,775,472	-	-
Total expenditures	<u>955,001,923</u>	<u>114,154,952</u>	<u>452,549,715</u>	<u>592,723,151</u>
Excess <deficiency> of revenues over <under> expenditures	8,503,494	197,610,843	-	-
Other financing sources <uses>:				
Interfund transfers in	45,685,409	16,124,075	-	-
Interfund transfers out for debt service	<83,157,218>	<216,335,971>	-	-
Interfund transfers out other	<16,124,075>	<24,089,732>	-	-
Proceeds from sale of bonds	-	-	-	-
Proceeds from sale of refunding bond	-	-	-	-
Premium from sale of bonds	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources <uses>	<u><53,595,884></u>	<u><224,301,628></u>	<u>-</u>	<u>-</u>
Net change in fund balances before accounting change	<45,092,390>	<26,690,785>	-	-
Cumulative effect of accounting change (Note 4B)	<u>40,398,858</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<4,693,532>	<26,690,785>	-	-
Fund balances - July 1	<u>188,327,695</u>	<u>93,459,804</u>	<u>-</u>	<u>-</u>
Fund balances - June 30	<u>\$ 183,634,163</u>	<u>\$ 66,769,019</u>	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

Debt Service Fund	Capital Projects Fund	Other Governmental Funds (See Exhibit 10)	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 9,594,090
-	-	12,968,911	957,056,532
-	-	40,794,189	189,783,874
-	-	-	2,779,516
248,055,000	-	-	248,055,000
82,147,870	-	-	82,147,870
13,508	2,410,400	-	2,423,908
-	8,392,477	2,392	146,168,345
-	231,295,985	1,367,724	833,731,397
<u>330,338,126</u>	<u>242,098,862</u>	<u>92,980,778</u>	<u>2,779,847,507</u>
<325,584,988>	<238,611,931>	15,197,127	<342,885,455>
321,326,591	-	-	383,136,075
-	-	<21,833,402>	<321,326,591>
-	<21,501,401>	<94,276>	<61,809,484>
-	331,475,000	-	331,475,000
90,530,000	-	-	90,530,000
17,218,635	10,928,704	-	28,147,339
<107,735,127>	-	-	<107,735,127>
<u>321,340,099</u>	<u>320,902,303</u>	<u><21,927,678></u>	<u>342,417,212</u>
<4,244,889>	82,290,372	<6,730,551>	<468,243>
-	-	-	40,398,858
<4,244,889>	82,290,372	<6,730,551>	39,930,615
<u>22,789,895</u>	<u>77,396,420</u>	<u>30,980,065</u>	<u>412,953,879</u>
<u>\$ 18,545,006</u>	<u>\$ 159,686,792</u>	<u>\$ 24,249,514</u>	<u>\$ 452,884,494</u>

Arizona Department of Transportation
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the fiscal year ended June 30, 2003

Net change in fund balance - total governmental funds (Exhibit 4) \$ 39,930,615

Amounts reported for governmental activities in the Statement of Activities (Exhibit 2)
 are different because:

Capital outlays are reported as expenditures in governmental funds (Note 4D). 826,535,416

Bond proceeds provide current financial resources to governmental funds.

However, issuing debt increases long-term liabilities in the statement
 of net assets. Governmental funds report the effect of issuance costs,
 premiums, discounts, and similar items when the debt is first issued,
 whereas these amounts are deferred and amortized in the statement
 of activities (Note 4D). <450,152,339>

Repayment of long-term debt is reported as an expenditure in governmental
 funds, but the repayment reduces long-term liabilities in the statement of
 net assets (Note 4D). 356,277,965

Internal service funds are used by management to charge the cost of equipment
 rentals to individual funds. The net loss of the internal service funds
 is reported with governmental activities (Note 4D). <1,809,171>

Some items reported in the statement of activities do not require the use of
 current financial resources and, therefore, are not reported as expenditures
 in governmental funds (Note 4D). <117,519,727>

Change in net assets of governmental activities (Exhibit 2) \$ 653,262,759

The notes to the financial statements are an integral part of this statement.

Proprietary Fund Financial Statements

MAJOR FUNDS

Arizona Highways Magazine Fund

The Department uses this fund in the publishing and marketing of the Arizona Highways Magazine and various other products that promote the State of Arizona.

Highway Expansion and Extension Loan Program Fund

This fund is an innovative financing mechanism to administer funds designated to provide loan and credit enhancement assistance to sponsors of local transportation projects.

NON-MAJOR FUNDS

Internal Service Fund

The Department's own internal service fund, known as the Equipment Fund, purchases and maintains equipment and materials to be used by other funds and state agencies.

Arizona Department of Transportation
Statement of Net Assets
Proprietary Funds
June 30, 2003

	Business-type Activities - Enterprise Funds			
	Highway Expansion and Extension Loan Program Fund	Arizona Highways Magazine Fund	Total	Governmental Activities - Internal Service Fund
ASSETS				
Current assets:				
Unrestricted cash on deposit with the State Treasurer	\$ -	\$ 1,559,016	\$ 1,559,016	\$ 2,905,285
Restricted cash on deposit with the State Treasurer	96,010,168	-	96,010,168	
Receivables:				
Subscriptions, net of allowance for doubtful accounts	-	438,764	438,764	-
Accrued interest	249,902	6,838	256,740	11,011
Loans	52,903,160	-	52,903,160	-
Other, net allowance for doubtful accounts	-	45,323	45,323	-
Due from other Arizona Department of Transportation funds	1,269,916	-	1,269,916	-
Due from Arizona counties and cities	380,496	-	380,496	-
Inventories	-	2,659,047	2,659,047	2,371,983
Prepaid items	-	505,469	505,469	-
Total current assets	150,813,642	5,214,457	156,028,099	5,288,279
Noncurrent assets:				
Prepaid items	-	178,500	178,500	-
Loans receivable	83,979,755	-	83,979,755	-
Capital assets not subject to depreciation	-	7,900	7,900	-
Capital assets subject to depreciation, net of accumulated depreciation	-	1,117,854	1,117,854	38,692,731
Total noncurrent assets	83,979,755	1,304,254	85,284,009	38,692,731
Total assets	234,793,397	6,518,711	241,312,108	43,981,010
LIABILITIES				
Current liabilities:				
Accounts payable	-	122,789	122,789	150,645
Accrued payroll and other accrued expenses	4,867	113,376	118,243	249,724
Compensated absences	18,685	132,695	151,380	484,973
Deferred revenue	-	4,243,131	4,243,131	-
Notes payable	151,545,066	-	151,545,066	-
Total current liabilities	151,568,618	4,611,991	156,180,609	885,342
Noncurrent liabilities:				
Compensated absences	-	-	-	92,639
Interfund payables	20,000,000	-	20,000,000	-
Notes payable	-	-	-	2,269,680
Total noncurrent liabilities	20,000,000	-	20,000,000	2,362,319
Total liabilities	171,568,618	4,611,991	176,180,609	3,247,661
NET ASSETS				
Invested in capital assets, net of related debt	-	1,125,754	1,125,754	36,423,051
Restricted for loans and other financial assistance	63,224,779	-	63,224,779	-
Unrestricted	-	780,966	780,966	4,310,298
Total net assets	\$ 63,224,779	\$ 1,906,720	\$ 65,131,499	\$ 40,733,349

The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Statement of Revenues, Expenses, and
Changes in Fund Net Assets
Proprietary Funds
For the fiscal year ended June 30, 2003

	Business-type Activities - Enterprise Funds			Governmental
	Highway Expansion and Extension Loan Program Fund	Arizona Highways Magazine Fund	Total	Activities - Internal Service Fund
Operating revenues:				
Sales and charges for services (net of write off \$34,932)	\$ -	\$ 9,596,162	\$ 9,596,162	\$ 31,265,968
Interest on loans receivables	3,881,239	-	3,881,239	-
Other	-	425,219	425,219	651,227
Total operating revenues	<u>3,881,239</u>	<u>10,021,381</u>	<u>13,902,620</u>	<u>31,917,195</u>
Operating expenses:				
Publication and promotional cost	-	4,667,864	4,667,864	-
Repair and maintenance	-	99,164	99,164	5,614,396
Fuel and lubricants	-	-	-	5,104,897
Salaries and related benefits	217,411	2,982,854	3,200,265	10,773,916
Shipping and postage	-	1,709,927	1,709,927	-
Supplies	1,388	100,472	101,860	317,614
Equipment purchase and rental	-	44,313	44,313	103,860
Professional and outside services	118,463	374,460	492,923	600,637
Insurance	-	-	-	605,300
Travel	1,561	15,440	17,001	84,740
Interest on notes payable	6,008,600	-	6,008,600	253,489
Depreciation	-	319,900	319,900	6,652,725
Other	1,116	298,064	299,180	963,612
Total operating expenses	<u>6,348,539</u>	<u>10,612,458</u>	<u>16,960,997</u>	<u>31,075,186</u>
Operating <loss> income	<2,467,300>	<591,077>	<3,058,377>	842,009
Non-operating revenues <expenses>:				
Interest on investments	2,399,250	41,125	2,440,375	101,370
Distributions to other state agencies (Note 5F)	<20,000,000>	<500,720>	<20,500,720>	<2,752,550>
Loss on sale/disposal of capital assets	-	<4,825>	<4,825>	-
Total non-operating revenues <expenses>	<u><17,600,750></u>	<u><464,420></u>	<u><18,065,170></u>	<u><2,651,180></u>
Changes in net assets	<20,068,050>	<1,055,497>	<21,123,547>	<1,809,171>
Total net assets - July 1	<u>83,292,829</u>	<u>2,962,217</u>	<u>86,255,046</u>	<u>42,542,520</u>
Total net assets - June 30	<u>\$ 63,224,779</u>	<u>\$ 1,906,720</u>	<u>\$ 65,131,499</u>	<u>\$ 40,733,349</u>

The notes to the financial statements are an integral part of this statement.

Arizona Department of Transportation
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended June 30, 2003

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
	Highway Expansion and Extension Loan Program Fund	Arizona Highways Magazine Fund	Total	
Cash flows from operating activities:				
Receipts from customers	\$ 2,961,231	\$ 9,447,107	\$ 12,408,338	\$ -
Receipts from other funds	82,185,273	-	82,185,273	27,213,061
Receipts from other agencies	3,270,000	-	3,270,000	4,257,455
Payments to suppliers	<32,873>	<7,231,503>	<7,264,376>	<13,753,880>
Payments to employees	<216,637>	<2,913,301>	<3,129,938>	<10,875,551>
Payments to other funds	<96,475,705>	<25>	<96,475,730>	-
Payments to other agencies	<19,829,986>	<157>	<19,830,143>	-
Other receipts <payments>	<1,116>	426,680	425,564	663,243
Net cash provided <used> by operating activities	<28,139,813>	<271,199>	<28,411,012>	7,504,328
Cash flows from noncapital financing activities:				
Distribution to other state agencies	<20,000,000>	<500,720>	<20,500,720>	<2,752,550>
Net cash provided <used> by noncapital financing activities	<20,000,000>	<500,720>	<20,500,720>	<2,752,550>
Cash flows from capital and related financing activities:				
Proceeds from sale of capital assets	-	-	-	292,836
Acquisition of capital assets	-	<11,422>	<11,422>	<5,951,949>
Net cash used by capital and related financing activities	-	<11,422>	<11,422>	<5,659,113>
Cash flows from investing activities:				
Interest on investments	2,815,383	41,125	2,856,508	101,370
Net cash provided by investing activities	2,815,383	41,125	2,856,508	101,370
Net increase <decrease> in cash	<45,324,430>	<742,216>	<46,066,646>	<805,965>
Cash - July 1	141,334,598	2,301,232	143,635,830	3,711,250
Cash - June 30	\$ 96,010,168	\$ 1,559,016	\$ 97,569,184	\$ 2,905,285
Reconciliation of operating income to net cash provided <used> by operating activities:				
Operating <loss> income	\$ <2,467,300>	\$ <591,077>	\$ <3,058,377>	\$ 842,009
Adjustment to reconcile operating <loss> income to net cash provided <used> by operating activities:				
Depreciation	-	319,900	319,900	6,652,725
Net changes in assets and liabilities:				
Receivables	<30,763,439>	20,694	<30,742,745>	12,016
Due from other Arizona Department of Transportation funds	<716,791>	-	<716,791>	167,818
Due from other state agencies	-	-	-	38,250
Due from Arizona counties and cities	<203,217>	-	<203,217>	-
Inventories	-	150,657	150,657	<62,761>
Prepaid items	-	89,761	89,761	-
Accounts payable	-	<162,217>	<162,217>	<127,314>
Accrued payroll and other accrued expenses	962	53,637	54,599	24,275
Compensated absence	1,372	15,916	17,288	<41,170>
Due to other Arizona Department of Transportation funds	-	<25>	<25>	<1,520>
Due to other state agencies	-	<157>	<157>	-
Notes payable	6,008,600	-	6,008,600	-
Deferred revenue	-	<168,288>	<168,288>	-
Net cash provided <used> by operating activities	\$ <28,139,813>	\$ <271,199>	\$ <28,411,012>	\$ 7,504,328

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Financial Statements

Highway Properties - Privilege Tax Fund

This fund collects monies from renters of properties previously acquired by the Department for use in future highway development. Monies collected are distributed to the Department of Revenue.

Highway Properties - 24% Lieu Tax Fund

This fund collects 24 percent of the Department's rental income from properties for use in future highway development. Monies collected are distributed to the local counties.

Arizona Department of Transportation
Statement of Net Assets
Agency Funds
June 30, 2003

	Highway Properties - Privilege Tax Fund	Highway Properties - 24 % Lieu Tax Fund
ASSETS		
Restricted cash on deposit with the State Treasurer	\$ 253	\$ 588,121
Total assets	<u>\$ 253</u>	<u>\$ 588,121</u>
LIABILITIES		
Due to Department of Revenue	\$ 253	\$ -
Due to Arizona counties	<u>-</u>	<u>588,121</u>
Total liabilities	<u>\$ 253</u>	<u>\$ 588,121</u>

The notes to the financial statements are an integral part of this statement.

Notes to the financial Statements

Arizona Department of Transportation
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2003

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Arizona Department of Transportation (Department) conform in all material respects to accounting principles generally accepted in the United States of America (GAAP) as applicable to governments. The Governmental Accounting Standards Board (GASB) is the primary standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's *Codification of Governmental and Financial Reporting Standards* (GASB Codification). Following is a summary of the Department's significant accounting policies.

A. Reporting Entity

The Department is a department of the State of Arizona (State) and is not a legally separate entity. The Department has no component units. The Director of the Department serves as the Chief Administrative Officer and is directly responsible to the Governor. The Governor appoints a seven-member Transportation Board of the State of Arizona Department of Transportation (Transportation Board) which has responsibility for establishing a complete system of state highway routes, approving all highway construction contracts, and distributing monies for local airport facilities' projects through a grant program.

The Department is responsible for the construction and maintenance of all state highways. The Department cooperates with the various cities and counties within the state in the construction and maintenance of state roads and with the Federal Highway Administration in the construction and maintenance of interstate and other highways. Assistance in the development of local airports, registering motor vehicles and aircraft, licensing drivers and the publishing of the *Arizona Highways Magazine* are also responsibilities of the Department.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by federal reimbursement, taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions, or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified by management or the Transportation Board.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identified with a specific function. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2003

requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being reported in a single column.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis of accounting*, as are the proprietary funds. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year they are levied for transportation excise, aircraft licensing, aviation and motor fuel, flight property, and underground storage tanks. Motor carrier and vehicle license taxes are recognized when received. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Department's proprietary funds follow GASB pronouncements and those Financial Accounting Standard Board Statements (FASB) and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The proprietary funds do not follow any FASB Statements and Interpretations issued after November 30, 1989.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the fiscal year, e.g. federal revenue reimbursements, vehicle license taxes and highway user revenue taxes. Expenditures generally are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due and payable.

Financial Statement Presentation

The Department reports the following major governmental funds:

The *General Fund*, known as the State Highway Fund, is the primary operating fund. It accounts for all financial resources except for those required to be accounted for in another fund. Expenditures are reported for general operations of the Department, including road and bridge repairs, maintenance and construction, planning and development, engineering, and administration. Revenues are received from the following primary sources: fuel and motor carrier taxes and fees; vehicle registrations, titles, licenses and related fees; and federal grants.

The *Maricopa Regional Area Road Construction Fund* is a special revenue fund that receives Maricopa County transportation excise tax monies collected by the Department of Revenue. These monies are used for the construction of certain state highways within Maricopa County.

The *Motor Vehicle Division Clearing Fund* is a special revenue fund which accounts for the collection and disbursement of certain Motor Vehicle Division revenues.

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Notes to the Financial Statements
June 30, 2003

The *Highway User Revenue Fund* is a special revenue fund which collects motor vehicle and liquid use fuel taxes and receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed to the State Highway Fund, the Department of Public Safety, the Arizona State Parks, the Economic Strength Project Fund, and incorporated cities and counties.

The *Debt Service Fund* is used to account for the accumulation of resources for, and the payments of, general long-term debt principal and interest of the governmental funds.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities of the governmental funds.

The Department reports the following major proprietary funds:

The *Highway Expansion and Extension Loan Program Fund* (HELP) is an innovative financing mechanism to administer funds designated to provide loan and credit enhancement assistance to sponsors of local transportation projects.

The *Arizona Highways Magazine Fund* publishes and markets the Arizona Highways Magazine and various other products that promote the State of Arizona.

Additionally, the Department reports the following fund types:

The *Internal Service Fund* which accounts for purchases and maintenance of equipment and materials to be used by other divisions in the Department and other government agencies. The Equipment Fund is the Department's only internal service fund.

The *Agency Funds* are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Department has two agency funds, the Highway Properties – Privilege Tax and the Highway Properties – 24% Lieu Tax (not included in the government-wide statements).

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges for services by the Equipment Fund to the other governmental functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges for services and magazine subscriptions. The Department also recognizes as operating revenues interest on loan receivables and other revenues intended to recover the cost of services. Operating expenses for the enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, the Department generally expends the restricted resources first, then unrestricted resources as they are needed to maintain appropriate cash balances and finance the construction program.

D. Assets, Liabilities, and Net Assets/Fund Balance

Deposits and Investments

The Department's cash includes petty cash, bank accounts, and deposits with the State Treasurer for pooled investments. All investments are carried in the name of the State of Arizona. State statutes require the State Treasurer to invest these pooled funds in collateralized time certificates of deposit, repurchase agreements or obligations of the U.S. Government. All investments are carried at fair value. These balances are not subject to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, classification because they are included in the state's investment pool.

State statutes require the State Treasurer to maintain separate investment accounts for the portions of the Highway Revenue Bond Proceeds Fund relating to the highway revenue bond issues and the Maricopa Regional Area Road Bond Proceeds Fund relating to the transportation excise tax revenue bond issues. These funds may be invested by the Treasurer in the state's investment pool.

The Department's investments are included in the state investment pool and these investments are not shown in the Department's name. Therefore, the Department presents its equity in the internal pool as required in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/payables. All other outstanding balances between U.S. Government, Arizona counties and cities, and other state agencies are reported as "due to/from". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

The other receivables and subscriptions receivables are shown net of allowance for doubtful accounts. Other receivables in excess of 180 days comprise the insurance claims net of allowance for doubtful accounts. The subscriptions receivable allowance for doubtful accounts is equal to two (2) percent of outstanding subscriptions at June 30, 2003.

Notes receivable represents real estate mortgage loans made to individuals purchasing homes previously owned by the Department for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination.

Inventories and Prepaid Items

The governmental activities inventory is valued at cost, which approximates market, using the moving average method. This inventory is accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used. The fund financial statement shows a reservation for inventory for the like amount indicating it does not constitute available expendable resources. No reservation of net assets is shown in the government-wide statements for inventories.

The business-type activities' inventories are stated at the lower of cost or market. Costs of proprietary fund inventories consisting of resale products and supplies are generally determined by moving average cost and specific identification methods, respectively. Costs of the internal service fund's inventories (consisting of vehicle parts and supplies, fuels and lubricants, and other supplies) are determined by moving average cost methods.

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Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Department's governmental revenue bonds, as well as certain resources of the General Fund and the Highway Extension and Expansion Loan Program Fund (enterprise fund) are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants or state statutes. Effective July 1, 1981, state law required accumulation of at least 15 percent, which in fiscal year 1996 was modified to 12.6 percent, of the revenues allocated each year to the General Fund from the Highway User Revenue Fund for the design, purchase of right-of-way or construction of controlled-access highways which are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). The debt service fund is used to report the resources set aside for payment of future debt service. Bond proceeds are deposited in the capital projects fund and are restricted for acquisitions of right-of-way and construction of federal, state and local highways.

Capital Assets

Capital assets, which include land, buildings and improvements, improvements other than buildings, machinery and equipment, infrastructure and construction in progress are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Purchased capital assets are recorded at historical cost or estimated historical cost if historical cost is not available. Donated capital assets are recorded at estimated fair value at the date of donation.

Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized. Outlays for capital assets are capitalized at the time of the purchase or, in the case of infrastructure, at the time of final acceptance by the Department from the contractor. Asset preservation costs are expensed as incurred.

The Department depreciates non-infrastructure capital assets on a straight-line basis using the following estimated useful lives. Modular buildings are included on the Statement of Net Assets under the machinery and equipment category, however, modular buildings have an estimated useful life of fifteen (15) years.

Assets	Years
Buildings and improvements	40
Improvements other than building	40
Machinery and equipment	5-15
Mobile fleet and aircraft	5-15

Infrastructure was capitalized for the first time in fiscal year 2002. The infrastructure assets are reported in the governmental-type activities column of the Statement of Net Assets. The Department's infrastructure assets consist of roads and bridges and are presented using the modified approach and, therefore, are not depreciated.

Deferred Revenues

In the government-wide statements and proprietary fund financial statements, deferred revenues are recognized when cash, receivables, or other assets are received prior to being recognized. In the governmental funds, amounts are reported as deferred revenues until they are available to liquidate liabilities of the current period. Deferred revenues are reported in the government-wide statements for the business-type activities and in the fund statements for both the governmental and proprietary funds. In the government-wide statements, the deferred revenues relate to unearned

Arizona Department of Transportation
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subscriptions' income for the *Arizona Highways Magazine*. Unearned subscription income is recorded when subscription orders are received and is amortized as income over the terms of the related subscriptions. Costs associated with the selling of subscriptions are expensed in the year incurred. In the fund statements, the deferred revenues represent the amount for the notes receivable for real estate mortgage loans made to individuals who purchased homes previously owned by the Department for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination.

Compensated Absences

It is the Department's policy to permit employees to accumulate earned but unused sick leave and vacation benefits. There is no liability for unpaid accumulated sick leave for the Department. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Effective July 1, 1998, state employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1,500 hours, upon retirement directly from state service. The benefit value is calculated by taking the state hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date, times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25 percent for 500 hours to a maximum of 50 percent for 1,500 hours. The maximum benefit value is \$30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the State's financial statements as an Internal Service Fund.

Employees are allowed to accumulate up to 240 hours of vacation leave (320 hours for exempt employees) which is paid when vacation is taken or upon termination of employment at the individual's then current rate of pay. The liabilities for vacation outstanding as of June 30 for both the governmental and proprietary funds are reported on the Statement of Net Assets.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets/Fund Balance

The difference between assets and liabilities is "Net Assets" on the government-wide and proprietary statements and "Fund Balance" on the governmental fund statements.

Reservations

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: 1) funds legally segregated for a specific purpose, or 2) assets, which by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund. Note 5I provides a disaggregation of reserved fund balances.

E. Revenues and Expenditures/Expenses

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g. Administration, Aeronautics, Highway, etc). Additionally, revenues are classified between program and general revenues. Program revenues include: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. General revenues include all taxes and interest on investments.

In the governmental fund financial statements, revenues are reported by source. Expenditures are reported by function (e.g., Administration, Distributions to Arizona counties and cities, and Distributions to other state agencies, Debt service, Capital outlay, etc.).

The Distributions to Arizona counties and cities, and Distributions to other state agencies are shared tax revenues that are distributed based on statutory requirements. Debt service includes both interest and principal outlays related to bonds. Capital outlay includes expenditures for real property or infrastructure (e.g. bridges and roads).

Revenues and expenses of proprietary funds are classified as operating and non-operating and as sub-classified by object (e.g., salaries, equipment rental, depreciation, etc). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as non-operating.

Other Financing Sources <Uses>

Other financing sources are additions to the governmental fund balances in the fund financial statements and include resources and financing provided by bond proceeds and transfers from other funds. Other financing uses are reductions of governmental fund resources in fund financial statements normally resulting from transfers to other funds.

F. Interfund Activity and Balances

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are activities between the funds reported as governmental activities and the funds reported as business-type activities (e.g. the transfer of the loss from the Equipment Fund).

Interfund Balances

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

2. FUNDS BY CLASSIFICATION

The following table lists all of the funds whose balances are reflected in this financial report.

MAJOR FUNDS

Governmental Funds :

General Fund (State Highway Fund)

Special Revenue Funds:

Maricopa Regional Area Road

Construction Fund

Motor Vehicle Division Clearing Fund

Highway User Revenue Fund

Debt Service Fund

Capital Projects Fund

Proprietary Funds:

Arizona Highway Magazine Fund

Highway Expansion and Extension

Loan Program Fund

Internal Service Fund

NON-MAJOR FUNDS

Other Governmental Funds:

Special Revenue Funds:

State Aviation Fund

Safety Enforcement and Transportation

Infrastructure Fund

Motor Vehicle Liability Insurance

Enforcement Fund

Vehicle Inspection and Title

Enforcement Fund

Motor Carrier Safety Revolving Fund

Motorcycle Safety Education Fund

Underground Storage Tank Fund

Economic Strength Project Fund

Grant Anticipation Notes Fund

Local Agency Deposits Fund

FIDUCIARY FUNDS

Agency Funds:

Highway Properties - Privilege Tax Fund

Highway Properties - 24% Lieu Tax Fund

3. BUDGETING, BUDGETARY CONTROL, AND LEGAL COMPLIANCE

Annual budgets for the operating expenditures and capital outlay including land, building and improvements for the General Fund (State Highway Fund) are submitted to the Governor in accordance with state law. The budgets are legally enacted as appropriations after approval by the state legislature and signature by the Governor. The legal level of control for operating expenditures is at the program level and expenditure budgets are appropriated using a lump sum format with special line items. Expenditure details for personal services, employee related expenditures and all other operating expenditures are specifically budgeted within all divisions. In certain divisions, other specific programs are budgeted in addition to these categories. Revenue budgets are developed internally by the Department and are not a part of the appropriation process.

Amendments to the approved appropriations require legislative approval. However, since the Department's appropriation is a lump sum appropriation by program, the allocation of funds between personal services, employee-related expenses, and other operating expenses is an internal decision for the program manager. Accordingly, transfers between line items such as personal services and other operating expenses within a particular program may be made by the program manager. Transfers of funds between programs require the approval of the Director of the Department of Administration. Expenditures may not exceed appropriations.

All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

Budgets are prepared on the cash basis except that liabilities incurred before the end of the fiscal year and paid within the first month of the subsequent fiscal year are charged against the prior fiscal year's budget. The Department's appropriations lapse at year-end unless exempted by the legislature.

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Notes to the Financial Statements
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The capital outlay appropriation includes state highway construction and land, buildings and improvements for the General Fund. A legal limitation is adopted for land, buildings and improvements; however, legislation allows the Department to spend in excess of its appropriation for state highway construction up to the current fund balance. The Department monitors expenditures through an internal budgetary process and the Five-Year Transportation Facilities Construction Program approved by the Transportation Board. A legal limitation is not adopted for the other special revenue funds, the debt service funds, capital projects funds, proprietary funds and fiduciary funds.

4. ACCOUNTING CHANGES

A. New Accounting Pronouncements

Statement No. 40, Deposit and Investment Risk Disclosures – an amendment to GASB Statement No. 3

In March 2003, GASB adopted Statement No. 40. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2004. Earlier application is encouraged. The Department has not adopted this statement, but does not believe it will have a material impact.

Statement No. 41, Budgetary Comparison Schedules – Perspective Differences – an amendment to GASB Statement No 34.

In May 2003, GASB issued Statement No. 41, an amendment to Statement 34, which clarifies the budgetary presentation requirements for governments with significant budgetary perspective differences that result in their not being able to present budgetary comparison information for their general fund and major special revenue funds. These governments are required to present budgetary comparison schedules as required supplementary information (RSI) based on the fund, organization, or program structure that the government uses for its legally adopted budget.

The provisions of this Statement should be implemented simultaneously with Statement 34. For governments that have implemented Statement 34 prior to the issuance of this Statement, the requirements of this Statement are effective for financial statements for periods beginning after June 15, 2002.

B. Cumulative Effect of Change in Accounting Policy

It has been the Department's policy to record state appropriated funds to the State Highway Fund (General Fund) as expenditures in the General Fund. The accumulation of these funds has reduced the cash balance held with the State Treasurer's Office and the General Fund's unrestricted fund balance by \$40,398,858. During 2003 the state determined that it would no longer require the Department to record these appropriations as expenditures. In addition, the state made the decision that the Department would be credited for the previously recorded \$40,398,858. This change in policy has been reflected in the statements as a "Cumulative Effect of Accounting Change".

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2003

C. Explanations of Reconciling Items of the Balance Sheet of Governmental Funds to the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – government activities as reported on the government-wide Statement of Net Assets. The following explanations are necessary to explain these differences between the governmental fund balance sheet and the government-wide Statement of Net Assets:

1. Capital assets are not included on the fund statements but are included on the government-wide statement as follows:

Capital assets not subject to depreciation	\$ 11,256,482,452
Capital assets subject to depreciation	<u>182,081,509</u>
	11,438,563,961
less Internal Service Fund (Equipment Fund) assets	<u><38,692,731></u>
	<u><u>\$ 11,399,871,230</u></u>

2. Deferred revenues for assets shown in fund statements for the following funds:

General Fund (State Highway Fund)	\$ 1,872,566
Maricopa Regional Area Road Construction Fund	2,988,149
State Aviation Fund	<u>4,993,698</u>
	<u><u>\$ 9,854,413</u></u>

3. Long-term liabilities including bonds payable are not due and payable in the current period and are not reported in the current period on the fund statements. The detail for the \$<1,631,297,915> difference are as follows:

Bonds payable	\$ <1,624,667,663>
Deferred charges - issuance costs	3,049,126
Capital leases	<916,184>
Compensated absences	<u><8,763,194></u>
	<u><u>\$ <1,631,297,915></u></u>

D. Explanations of Reconciling Items of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Fund to Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported on the government-wide Statement of Activities. The following explanations are necessary to explain these differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

1. Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, these costs are removed; some cost are capitalized as assets while other costs are expensed as follows:

Capital outlay	\$ 833,731,397
less depreciation expense	<u><7,195,981></u>
	<u><u>\$ 826,535,416</u></u>

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2. The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, the government reports the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The details of this \$<93,874,374> difference are as follows:

Debt issued or incurred:

Issuance of Highway Revenue Bonds	\$ <156,475,000>
Issuance of Transportation Excise Tax Revenue Bonds	<80,475,000>
Issuance of Highway Revenue Bonds	<185,055,000>
Premium on bonds	<28,147,339>
	<u><450,152,339></u>

Principal repayments:

Highway Revenue Bonds	44,490,000
Transportation Excise Tax Revenue Bonds	190,415,000
Grant Anticipation Notes	13,150,000
Amortization of premium and discount	2,754,057
Bond issuance costs	2,423,908
Payment to refunded bond escrow agent	103,045,000
	<u>356,277,965</u>
	<u>\$ <93,874,374></u>

3. The Internal Service Fund is used by the Department to charge the cost for purchases and maintenance of equipment and material to be used by other funds and state agencies. The adjustment for the Internal Service Fund close those funds by charging additional amounts to participating governmental activities to completely cover the Internal Service Fund costs for the year.

Internal Service Fund (Equipment Fund):

Changes in net assets	\$ <1,809,171>
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4. Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. The details are as follows:

Asset Preservation	\$ <122,215,462>
Disposal of Capital Assets	5,113,035
Capital lease	641,293
Notes & Loans	<1,716,451>
Compensated absences	657,858
	<u>\$ <117,519,727></u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2003

5. DETAILED NOTES ON ALL FUNDS

A. Capital Assets

Capital asset activity for the year ended June 30, 2003, was as follows:

Governmental Activities	July 1, 2002 Beginning Balance	Increases	Decreases	June 30, 2003 Ending Balance
Capital assets, not being depreciated:				
Land	\$ 1,715,941,418	\$ 127,127,909	\$ <3,896,863>	\$ 1,839,172,464
Infrastructure	7,444,327,275	120,749,615	<303,912>	7,564,772,978
Construction in progress	1,385,665,135	587,621,490	<120,749,615>	1,852,537,010
Total capital assets, not being depreciated	10,545,933,828	835,499,014	<124,950,390>	11,256,482,452
Capital assets, being depreciated:				
Buildings	142,715,993	2,590,789	<59,117>	145,247,665
Improvements other than buildings	32,948,803	219,780	-	33,168,583
Machinery and equipment	44,812,530	4,489,692	<6,404,626>	42,897,596
Mobile fleet and aircraft	112,290,754	2,578,794	<1,868,462>	113,001,086
Total capital assets, being depreciated	332,768,080	9,879,055	<8,332,205>	334,314,930
Less accumulated depreciation for:				
Buildings	<45,080,927>	<3,221,703>	20,975	<48,281,655>
Improvements other than buildings	<1,245,493>	<304,082>	-	<1,549,575>
Machinery and equipment	<28,531,952>	<3,860,004>	5,251,501	<27,140,455>
Mobile fleet and aircraft	<70,295,736>	<6,462,917>	1,496,917	<75,261,736>
Total accumulated depreciation	<145,154,108>	<13,848,706>	6,769,393	<152,233,421>
Total capital assets, being depreciated, net	187,613,972	<3,969,651>	<1,562,812>	182,081,509
Governmental activities capital assets, net	\$ 10,733,547,800	\$ 831,529,363	\$ <126,513,202>	\$ 11,438,563,961
Business-type Activities	July 1, 2002 Beginning Balance	Increases	Decreases	June 30, 2003 Ending Balance
Capital assets, not being depreciated:				
Land	\$ 7,900	\$ -	\$ -	\$ 7,900
Capital assets, being depreciated:				
Buildings	981,157	-	-	981,157
Machinery and equipment	2,424,705	12,427	<58,305>	2,378,827
Total capital assets, being depreciated	3,405,862	12,427	<58,305>	3,359,984
Less accumulated depreciation for:				
Buildings	<635,557>	<33,816>	-	<669,373>
Machinery and equipment	<1,339,148>	<286,085>	52,476	<1,572,757>
Total accumulated depreciation	<1,974,705>	<319,901>	52,476	<2,242,130>
Total capital assets, being depreciated, net	1,431,157	<307,474>	<5,829>	1,117,854
Business-type activities capital assets, net	\$ 1,439,057	\$ <307,474>	\$ <5,829>	\$ 1,125,754

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2003

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:	
Administration	\$ 1,127,674
Aeronautics	268,300
Highway	2,527,077
Highway Maintenance	1,462,070
Motor Vehicle	1,810,860
Capital assets held by the Department's internal service fund are charged to the various functions based on their usage of the assets	<u>6,652,725</u>
Total depreciation expense - governmental activities	<u>\$ 13,848,706</u>
Business-type Activities	
Arizona Highways Magazine Fund	<u>\$ 319,901</u>

B. Construction Commitments

The Department's outstanding commitments for contracts at June 30, 2003, was \$650,737,726.

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Construction Contracts:		
Rural Roadways	\$ 279,036,945	\$128,967,342
Small Urban Roadways	113,632,415	42,351,345
Urban Roadways	40,089,268	30,001,730
Large Urban Roadways	<u>400,803,319</u>	<u>245,064,386</u>
Sub-total	833,561,947	446,384,803
Design Contracts	722,092,515	117,999,340
Other Commitments	110,804,363	86,353,583
Total	<u>\$1,666,458,825</u>	<u>\$650,737,726</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2003

C. Deferred Revenues

In the fund financial statements, the deferred revenues represent the amount for notes receivable for real estate mortgage loans made to individuals who purchased homes previously owned by the Fund for highway construction purposes. The loans were made at a fixed rate and mature ten years from the date of origination. The State Aviation Fund amount represents loans to various local governments for construction of hangars, taxiways extension, runways, etc. These loans were made at a fixed rate and with various maturities. The proprietary fund includes the amount for unearned subscriptions. The following schedule is a summary of the amounts outstanding as of June 30, 2003:

Governmental Funds:	
General Fund (State Highway Fund)	\$ 1,872,566
Maricopa Regional Area Road Construction Fund	2,988,149
State Aviation Fund	<u>4,993,698</u>
	<u>\$ 9,854,413</u>
Proprietary Fund:	
Arizona Highways Magazine Fund	<u>\$ 4,243,131</u>

D. Securities Held in Lieu of Retention

In accordance with Arizona law, a contractor may assign to the Department securities in lieu of retention and will deposit with the bank, cash, time certificates of deposit in federally insured banks licensed by the State of Arizona (Certificates of Deposit), securities of or guaranteed by the United States of America (Treasury Bills), or other eligible securities as defined in the Arizona Revised Statutes, Title 35, Chapter 2, Article 2, Section 35-313 (Eligible Investments). At June 30, 2003, the bank held assignment on securities aggregating approximately \$23 million in lieu of contractor retentions for construction. These additional securities are not reflected in the accompanying financial statements.

E. Interfund Receivables, Payables, and Transfers

The balances of current interfund receivables and payables as of June 30, 2003, were:

Receivables	Payables	Amount
General Fund (State Highway Fund)	Highway User Revenue Fund	\$ 83,386,196
	Motor Vehicle Division Clearing Fund	118,634
	Highway Expansion and Extension Loan Program Fund	20,000,000
Highway Expansion and Extension Loan Program Fund	General Fund	1,269,916
Highway User Revenue Fund	Motor Vehicle Division Clearing Fund	19,724,133
	General Fund	131,293
Non-major governmental funds	Motor Vehicle Division Clearing Fund	<u>93,720</u>
		<u>\$124,723,892</u>

The General Fund receivable of \$83,386,196 is an accrual for fuel tax revenues imposed in fiscal year 2003 from the Highway User Revenue Fund that were collected in fiscal year 2004.

The Highway User Revenue Fund receivable of \$19,724,133 is an accrual for vehicle license taxes due in fiscal year 2003 from the Motor Vehicle Division Clearing Fund that were collected in fiscal year 2004.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2003

In a prior fiscal year, the General Fund loaned \$20 million to the Highway Expansion and Extension Loan Program Fund to increase its loan capacity. The loan is due no later than December 31, 2008.

Interfund transfers for the year ended June 30, 2003, consisted of the following:

	Interfund Transfer In:			
	General Fund	Maricopa Regional Area Road Construction Fund	Debt Service Fund	Total
Interfund Transfer Out:				
General Fund	\$ -	\$ 16,124,075	\$ 83,157,218	\$ 99,281,293
Capital Projects Fund	21,501,401	-	-	21,501,401
Maricopa Regional Area Road Construction Fund	24,089,732	-	216,335,971	240,425,703
Other Governmental Funds	94,276	-	21,833,402	21,927,678
Total	<u>\$45,685,409</u>	<u>\$ 16,124,075</u>	<u>\$321,326,591</u>	<u>\$ 383,136,075</u>

The General Fund (\$83,157,218), the Maricopa Regional Area Road Construction Fund (\$216,335,971) and Other Governmental Funds - Grant Anticipation Notes Fund (\$21,833,402) made transfers to the Debt Service Fund to pay bond debt service.

F. Leases

Operating Leases

The Department leases data processing equipment, other equipment, and certain facilities from various lessors. The majority of these leases are for a one-year term, renewable annually. Total rental expenditures (excluding interfund transactions) for the fiscal year ended June 30, 2003, approximated \$4,157,000.

In fiscal year 2002, the Department renegotiated its long-term lease with the City of Phoenix for a facility located on Washington Street in Phoenix. The future operating lease commitments are as follows:

Year Ending June 30	Amount
2004	\$ 695,427
2005	736,335
2006	777,243
2007	818,150
Future operating lease commitments	<u>\$ 3,027,155</u>

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2003

In fiscal year 2003, the Department entered into a long-term lease to build a structure to house lab facilities in Gilbert, Arizona. The future operating lease commitments are as follows:

Year Ending June 30	<u>Amount</u>
2004	\$ 101,820
2005	101,820
2006	101,820
2007	101,820
2008	101,820
Thereafter	<u>587,472</u>
Future operating lease commitments	<u>\$ 1,096,572</u>

Capital Leases

The Department has entered into lease agreements as lessee for financing the acquisition of modular buildings. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>
Assets:	
Machinery and equipment	\$ 1,838,444
Less accumulated depreciation	<u><228,964></u>
Total	<u>\$ 1,609,480</u>

The future minimum lease obligations and the net present value of these minimums lease payments as of June 30, 2003, were as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>
2004	\$ 405,025
2005	307,506
2006	186,142
2007	86,672
Total minimum lease payments	985,345
Less amount representing interest	<u><69,161></u>
Present value of minimum lease payments	<u>\$ 916,184</u>

G. Non-Current Liabilities

Arizona Transportation Board Highway Revenue Bonds

The Transportation Board issued Senior and Subordinated Highway Revenue Bonds to provide funds for acquisition of right-of-way and construction of federal, state and local highways. The original amount of Highway Revenue Bonds issued in prior years and outstanding at the start of the fiscal year was \$734,155,000. During the year, Highway Revenue Bonds totaling \$341,530,000 were issued to (i) finance portions of the Transportation Board's Five-Year

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2003

Transportation Facilities Construction Program, (ii) pay costs of issuing the Bonds, and (iii) refund portions of the Board's outstanding Senior 1993 Refunding Bonds in the aggregate principal amount of \$98,495,000.

The Highway Revenue Bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes of the General Fund. Arizona Revised Statutes prohibit the total principal amount of Arizona Highway Revenue Bonds, excluding refunded bonds, from exceeding \$1.3 billion. Highway Revenue Bonds currently outstanding are as follows:

Purpose	Interest Rates	Amount
Governmental activities	2.0% - 8.8%	\$ 571,320,000
Governmental activities - refunding	2.3% - 6.0%	361,380,000
		<u>\$ 932,700,000</u>

Annual debt service requirements to maturity for Highway Revenue Bonds are as follows:

Fiscal year ending June 30	Highway Revenue Bonds	
	Principal	Interest
2004	\$ 49,665,000	\$ 50,257,999
2005	51,645,000	45,865,500
2006	54,985,000	43,076,792
2007	57,955,000	40,161,540
2008	60,645,000	37,424,558
2009-2013	284,715,000	137,273,648
2014-2018	221,480,000	74,326,434
2019-2022	<u>151,610,000</u>	<u>17,595,052</u>
	<u>\$ 932,700,000</u>	<u>\$445,981,523</u>

Arizona Transportation Board Transportation Excise Tax Revenue Bonds

The Maricopa County Regional Area Road Bond Fund is used to record all payments of principal and interest for Transportation Excise Tax Revenue Bonds issued by the Transportation Board. These bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County. The outstanding amount of Transportation Excise Tax Revenue Bonds issued in prior years was \$407,925,000. During the year, Transportation Excise Tax Revenue Bonds totaling \$80,475,000 were issued to (i) finance the acquisition of land and the design and construction of certain controlled access highways within Maricopa County, Arizona, (ii) pay costs of issuing the Bonds and (iii) refund in advance of maturity portions of the Board's outstanding Senior 1998 Series A Revenue Bonds in the aggregate principal amount of \$4,550,000.

The Bond Resolution adopted by the Transportation Board on July 25, 1986, established a debt service reserve requirement equal to the maximum annual interest due in the current year or future years on any series of outstanding Transportation Excise Tax Revenue Bonds. The Second Supplemental Transportation Excise Tax Revenue Bond Resolution adopted by the Transportation Board on September 22, 1988, gives the Transportation Board the option, which it has elected, of acquiring debt service reserve insurance policies in lieu of the debt service reserve requirement. Accordingly, no debt service reserve is reflected in the accompanying financial statements. The policies (aggregating \$70,063,698 at June 30, 2003) were issued by Financial Guaranty Insurance Company, except for the 1993 Series Subordinated Bonds policies, which were issued by MBIA Insurance Corporation, and the 1995 Series A and Series B Subordinated Bonds policies which were issued by AMBAC Assurance Corporation. These policies are noncancelable

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Notes to the Financial Statements
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and insure payment, up to the policy amount, of the bond interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005, or the date when no respective bonds are outstanding under the bond resolution. The premiums on these insurance policies are recorded as expenditures in the year of payment.

The carrying basis of the 1988 Series A Capital Appreciation Bonds increases as a result of accretion of the original issuance discount. At June 30, 2003, the carrying basis was \$27,329,152. At June 30, 2003, the outstanding balance was \$30,000,000.

All Transportation Excise Tax Revenue Bonds mature no later than December 15, 2005. Transportation Excise Tax Revenue Bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	3.0% - 6.5%	\$301,200,000
Governmental activities - capital appreciation	7.3% - 7.5%	30,000,000
Governmental activities - refunding	4.5% - 6.5%	<u>157,200,000</u>
		<u>\$488,400,000</u>

Annual debt service requirements to maturity for Transportation Excise Tax Revenue Bonds are as follows:

<u>Fiscal year ending June 30</u>	<u>Transportation Excise Tax Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2004	\$ 199,400,000	\$23,553,235
2005	208,625,000	14,318,152
2006	<u>80,375,000</u>	<u>1,566,542</u>
	<u>\$ 488,400,000</u>	<u>\$39,437,929</u>

Arizona Transportation Board Grant Anticipation Notes

The Grant Anticipation Notes Fund administers all payments of principal and interest for notes issued by the Transportation Board and is secured by revenues received from the Federal Highway Administration under grant agreements and certain other federal-aid revenues. The original amount of grant anticipation notes issued was \$182,295,000.

Grant Anticipation Notes currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	4.0% - 5.3%	\$ 169,145,000

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Notes to the Financial Statements
June 30, 2003

Annual debt service requirements to maturity for Grant Anticipation Notes are as follows:

Fiscal year ending June 30	Grant Anticipation Notes	
	Principal	Interest
2004	\$ 36,755,000	\$ 7,488,470
2005	49,000,000	5,400,850
2006	38,540,000	3,209,175
2007	37,000,000	1,307,500
2008	7,850,000	196,250
	<u>\$ 169,145,000</u>	<u>\$ 17,602,245</u>

Notes Payable

The Department's outstanding notes payable as of June 30, 2003, was \$331,983,542. The governmental activities notes payable was \$180,438,476 and business-type activities was \$151,545,066. The notes payable represent the General Fund loan payable to HELP for \$108,270,285, the Maricopa Regional Area Road Construction Fund loan payable to the City of Mesa for \$8,031,335, the Equipment Fund loan payable to creditors for \$2,269,680 and the Board Funding Obligations for loans from the State Treasurer for \$213,412,241. The total outstanding for Board Funding Obligations are as follows:

1. Laws 1999, Chapter 189 (SB 1201) authorized a Board Funding Obligation (BFO) of \$100,000,000 to HELP in fiscal year 2000. Both the principal and interest of the BFO are due on March 14, 2004 (\$55,524,200) and June 27, 2004 (\$54,616,614) respectively.
2. Laws 2001, Chapter 238 (HB 2636) authorized a Board Funding Obligation (BFO) of \$40,000,000 to HELP in fiscal year 2002. Interest accrued to date is \$1,404,252. Both the principal and interest of the BFO are due no later than May 30, 2004.
3. Laws 2001, Chapter 238 (HB 2636) authorized a Board Funding Obligation (BFO) of \$60,000,000 to the State Highway Fund in fiscal year 2002. Interest accrued to date is \$1,867,175. Both the principal and interest of the BFO are due no later than June 27, 2004.

Refunded Bonds Deposited with Escrow Agents

In prior years (\$132,346,156) and fiscal year 2003 (\$103,045,000), the Transportation Board refinanced various bond issues through refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal, redemption premium, if any, and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded. The assets, liabilities, and financial transactions of these trust accounts and the liability for the defeased bonds are not reflected in the financial statements of the Department.

The Department refunded the Highway Refunding Senior Series 1993 Bonds (\$98,495,000) and the Transportation Excise Tax Senior 1998 Series A Revenue Bonds (\$4,550,000) to reduce its total debt service payments by \$7,455,370 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$6,269,294.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2003

Refunded bonds of the Department deposited with escrow agents at June 30, 2003, are as follows:

Original Issue	Type	Escrow Maturity Date	Balance
1993 Senior	Highway Refunding Bonds	July 1, 2003	\$ 98,495,000
1999 Senior	Highway Refunding Bonds	July 1, 2009	64,130,000
1998 Series A Senior	Transportation Excise Tax Revenue Bonds	July 1, 2005	4,550,000
1988 Series A	Transportation Excise Tax Revenue Bonds		
	Capital Appreciation Bonds	July 1, 2005	<u>8,996,156</u>
Total refunded bonds deposited with escrow agents			<u>\$ 176,171,156</u>

Changes in non-current liabilities

The activity for the year ended June 30, 2003, was as follows:

	Beginning Balance July 1, 2002	Additions	Reductions	Ending Balance June 30, 2003	Due Within One Year
Governmental Activities:					
Bonds and Notes:					
Highway Revenue Bonds	\$ 734,155,000	\$ 341,530,000	\$ <142,985,000>	\$ 932,700,000	\$ 49,665,000
Transportation Excise Tax Tax Revenue Bonds	602,890,000	80,475,000	<194,965,000>	488,400,000	199,400,000
Grant Anticipation Notes	182,295,000	-	<13,150,000>	169,145,000	36,755,000
Premium on Bonds	9,357,653	28,147,339	<3,082,329>	34,422,663	3,860,449
Total bonds and notes	1,528,697,653	450,152,339	<354,182,329>	1,624,667,663	289,680,449
Capital leases	1,557,477	468,838	<1,110,131>	916,184	367,436
Compensated absences	11,701,814	10,328,278	<10,692,838>	11,337,254	9,195,933
Notes payable	<u>192,849,289</u>	<u>73,197,680</u>	<u><85,608,493></u>	<u>180,438,476</u>	<u>118,445,486</u>
Total governmental activities	<u>1,734,806,233</u>	<u>534,147,135</u>	<u><451,593,791></u>	<u>1,817,359,577</u>	<u>417,689,304</u>
Business-type Activities:					
Compensated absences	134,092	173,438	<156,150>	151,380	151,380
Notes payable	<u>145,536,466</u>	<u>6,008,600</u>	<u>-</u>	<u>151,545,066</u>	<u>151,545,066</u>
Total business-type activities	<u>145,670,558</u>	<u>6,182,038</u>	<u><156,150></u>	<u>151,696,446</u>	<u>151,696,446</u>
Total non-current liabilities	<u>\$ 1,880,476,791</u>	<u>\$ 540,329,173</u>	<u>\$ <451,749,941></u>	<u>\$ 1,969,056,023</u>	<u>\$ 569,385,750</u>

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$577,612 of internal service funds compensated absences and \$2,269,680 of notes payable are included in the above amounts.

H. Short-term Debt

The Department had no short-term debt activity for the fiscal year ended June 30, 2003.

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2003

I. Fund Balances

Reservations

The line entitled "Reserved Fund Balances" on the Governmental Funds Balance Sheet at June 30, 2003, consisted of the following:

	General Fund	Maricopa Regional Area Road Construction Fund	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total
Reserved Fund Balances:						
Inventories	\$ 4,692,945	\$ -	\$ -	\$ -	\$ -	\$ 4,692,945
Interfund receivables	20,000,000	-	-	-	-	20,000,000
Debt Service	-	-	18,545,006	-	2,240,673	20,785,679
Capital Projects Fund	<u>110,244,788</u>	<u>66,769,019</u>	<u>-</u>	<u>159,686,792</u>	<u>5,623,184</u>	<u>342,323,783</u>
Total Reserved Fund Balances	<u>\$ 134,937,733</u>	<u>\$ 66,769,019</u>	<u>\$ 18,545,006</u>	<u>\$ 159,686,792</u>	<u>\$ 7,863,857</u>	<u>\$ 387,802,407</u>

Effective July 1, 1981, State law required accumulation of at least 15 percent, which in fiscal year 1996 was modified to 12.6 percent, of the revenues allocated each year to the General Fund from the Highway User Revenue Fund for the design, purchase of right-of-way or construction of controlled-access highways which are included in the regional transportation plan of counties with populations in excess of 400,000 (Maricopa and Pima counties). At June 30, 2003, approximately \$107.5 million was reserved in the General Fund for this purpose. The remaining \$2.7 million was restricted for highway construction from Federal Highway Fatality monies. The loan to the General Fund for \$20.0 million is reserved for the receivable from the Highway Expansion and Extension Loan Program Fund.

The Maricopa Regional Area Road Construction Fund is reserved for capital projects. Capital Projects Fund is reserved for capital projects based on the debt covenants. The Debt Service Fund reserve is for future debt service payments.

6. OTHER INFORMATION

A. Subsequent Events

On August 6, 2003, the Transportation Board issued \$148,955,000 in Grant Anticipation Notes, Series 2003A to (i) finance a portion of the costs of various projects on the Maricopa County Regional Freeway System, (ii) refund all the Board's Outstanding Series 2000A Notes and (iii) pay a portion of the costs of issuing the Notes. The Series 2003A Notes are due January 1, 2004, through July 1, 2015. Net proceeds totaled \$134,181,000 (after receipt of \$10,162,013 reoffering premium and payment of \$249,072 in underwriting fees and costs of issuance).

In August 2003, the Department repaid in advance of scheduled maturity \$100,000,000 of the BFOs deposited to the HELP in fiscal year 2000, and \$60,000,000 of the BFOs deposited to the General Fund in fiscal year 2002. With interest, the total amount repaid was \$172,693,633. Concurrent with these repayments, the Department borrowed \$160,000,000 (\$100,000,000 deposited to HELP and \$60,000,000 deposited to the General Fund) under a new series of BFOs that are payable no later than August 2007.

B. Contingent Liabilities

Risk Management Insurance Losses

The Department is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Department is a participant in the state's self-

Arizona Department of Transportation
Notes to the Financial Statements
June 30, 2003

insurance program, and, in the opinion of the Department's management, any unfavorable outcomes from these claims and actions would be covered by the self-insurance program. Accordingly, the Department has no risk of loss beyond adjustments to future years' premium payments to the state's self-insurance program. All estimated losses for unsettled claims and actions of the state are determined on an actuarial basis and are included in the State of Arizona's Comprehensive Annual Financial Report.

Claims

The Department has a variety of claims pending against it that arose during the normal course of its activities. Management of the Department believes, based on the advice of legal counsel, that losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the Department.

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Department expects such amounts, if any, to be immaterial.

C. Retirement Plan

The Arizona State Retirement System Board administers the Arizona State Retirement Plan (Plan), a cost sharing multi-employer public employee defined benefit plan, for the benefit of Arizona employees and employees of certain other governmental entities. Plan provisions, including death, disability, and retirement benefits, are established by state statute. Substantially all employees of the Department are covered by the Plan.

The Arizona State Retirement System (System) issues a Comprehensive Annual Financial Report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P. O. Box 33910, Phoenix, Arizona 85067-3910 or by calling (602) 240-2000 or (800) 621-3778.

Arizona Revised Statutes provide statutory authority for employee and employer contributions. The employee and employer contribution rate for the year ended June 30, 2003, was computed to be 2.49 percent of covered payroll by an actuarial valuation performed at June 30, 2001. Contributions for the years ended June 30, 2001, 2002 and 2003 were \$4,032,399, \$3,959,972 and \$4,093,262, respectively, for both the employees and the Department, which were equal to the required contributions for each year.

The Department's total payroll for fiscal year 2003 was \$165.0 million. The Plan is funded through payroll deductions from employees' gross earnings and amounts contributed by the Department. Retirement benefits are obligations of the Plan and not of the Department. The Arizona Revised Statutes provide statutory authority for employee and employer contributions. The contribution requirement for fiscal year 2003 was \$4.1 million by both the employees and the Department.

Required Supplementary Information

[Other than MD&A]

Arizona Department of Transportation
Required Supplementary Information
June 30, 2003

Schedule of Revenues and Expenditures
Budget and Actual - General Fund (State Highway Fund)
For the fiscal year ended June 30, 2003

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive <Negative>
Revenues:				
Vehicle registration, title, license and related fees	\$ 232,704,500	\$ 232,704,500	\$ 234,054,397	\$ 1,349,897
Fuel and motor carrier taxes	300,487,300	300,487,300	301,520,791	1,033,491
Total revenues	<u>533,191,800</u>	<u>533,191,800</u>	<u>535,575,188</u>	<u>2,383,388</u>
Expenditures appropriated by state legislature in 2003 budget:				
Administration:				
Personal services	19,154,500	18,071,000	18,075,962	<4,962>
Employee related expenditures	3,845,100	4,394,700	4,395,092	<392>
Other operating expenditures	24,857,700	26,224,400	26,167,571	56,829
Attorney General Legal Service	<u>2,116,000</u>	<u>2,116,000</u>	<u>2,116,000</u>	<u>-</u>
Total Administration	49,973,300	50,806,100	50,754,625	51,475
Highway:				
Personal services	33,176,900	30,954,500	30,954,335	165
Employee related expenditures	7,502,500	7,486,700	7,486,557	143
Other operating expenditures	2,493,900	6,080,000	5,930,035	149,965
Total Highway	43,173,300	44,521,200	44,370,927	150,273
Highway Maintenance:				
Personal services	28,086,900	29,400,000	28,599,295	800,705
Employee related expenditures	7,535,500	10,400,000	10,210,487	189,513
Other operating expenditures	55,692,600	53,353,900	51,761,804	1,592,096
Maintenance carryover	<u>3,521,651</u>	<u>3,521,651</u>	<u>3,520,647</u>	<u>1,004</u>
Total Highway Maintenance	<u>94,836,651</u>	<u>96,675,551</u>	<u>94,092,233</u>	<u>2,583,318</u>
Motor Vehicle:				
Personal services	45,831,200	45,644,000	45,525,147	118,853
Employee related expenditures	12,045,700	14,088,200	14,005,259	82,941
Other operating expenditures	20,136,300	12,870,500	12,556,595	313,905
Fee Accounting and Revenue Management System	398,229	398,229	54,692	343,537
Integrated Inventory System	320,411	320,411	43,514	276,897
Judicial Fee Programming	250,000	250,000	150,000	100,000
Security Enhancement	2,687,700	2,687,700	5,245	2,682,455
Security Enhancement Issue	2,174,462	2,174,462	1,186,773	987,689
License plates and tabs	2,295,300	2,295,300	2,295,299	1

(continued)

Arizona Department of Transportation
Required Supplementary Information
June 30, 2003

Schedule of Revenues and Expenditures
Budget and Actual - General Fund (State Highway Fund)
For the fiscal year ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget - Positive <Negative>
	Original	Final	Amounts	
Motor Vehicle (continued):				
Public Information Service	\$ 150,000	\$ 150,000	\$ 150,000	\$ -
Plate and Fee to Owner	75,071	75,071	74,988	83
MVD One-time Trailer Fees Administration	44,285	44,285	562	43,723
MVD Electronic Certificate of Title System	320,209	320,209	301,772	18,437
MVD Attorney General Legal Services	137,000	137,000	137,000	-
Abandoned Vehicle Administration	501,300	501,300	449,504	51,796
Vehicle Registration Enforcement	48,100	48,100	30,894	17,206
Trailers Permit Registration	72,700	72,700	42,372	30,328
MVD Fuel Dispenser Labels	5,000	5,000	4,997	3
Total Motor Vehicle Division	<u>87,492,967</u>	<u>82,082,467</u>	<u>77,014,613</u>	<u>5,067,854</u>
Air Quality Programs:				
Administration air quality project:				
Personal services	38,600	38,600	38,600	-
Employee related expenditures	12,300	12,300	12,300	-
Other operating expenditures	200	200	200	-
Total Air Quality Programs	<u>51,100</u>	<u>51,100</u>	<u>51,100</u>	<u>-</u>
Capital outlay - land, buildings and improvements	9,666,415	9,666,415	4,167,101	5,499,314
Arizona Department of Public Safety transfers	28,266,600	28,266,600	28,266,600	-
Expenditures appropriated by state legislature by carryover of previous year's unexpended budget	<u>1,840,763</u>	<u>1,840,763</u>	<u>1,693,142</u>	<u>147,621</u>
Total expenditures	315,301,096	313,910,196	300,410,341	13,499,855
Excess of revenues over expenditures	<u>\$217,890,704</u>	<u>\$ 219,281,604</u>	<u>\$ 235,164,847</u>	<u>\$ 15,883,243</u>

The notes to required supplementary information are an integral part of this statement.

Notes to Required Supplementary Information – Budgetary Reporting

Budgets and budgetary accounting

Annual budgets for the operating expenditures and capital outlay including land, building and improvements for the General Fund (State Highway Fund) are submitted to the Governor in accordance with state law. The budgets are legally enacted as appropriations after approval by the state legislature and signature by the Governor. The legal level of control for operating expenditures is at the program level and expenditure budgets are appropriated using a lump sum format with special line items. Expenditure details for personal services, employee related expenditures and all other operating expenditures are specifically budgeted within all divisions. In certain divisions, other specific programs are budgeted in addition to these categories. Revenue budgets are developed internally by the Department and are not a part of the appropriation process.

Amendments to the approved appropriations require legislative approval. However, since the Department's appropriation is a lump sum appropriation by program, the allocation of funds between personal services, employee-related expenses, and other operating expenses is an internal decision for the program manager. Accordingly, transfers between line items such as personal services and other operating expenses within a particular program may be made by the program manager. Transfers of funds between programs require the approval of the Director of the Department of Administration. Expenditures may not exceed appropriations.

All transfers of funds are reported to the Department's Office of Strategic Planning and Budgeting for monitoring purposes.

Budgets are prepared on the cash basis except that liabilities incurred before the end of the fiscal year and paid within the first month of the subsequent fiscal year are charged against the prior fiscal year's budget. The Department's appropriations lapse at year-end unless exempted by the legislature.

For financial reporting purposes, the accompanying financial statements present the legally adopted budget for the operations of the General Fund that is subject to legislative appropriation.

The capital outlay appropriation includes state highway construction and land, buildings and improvements for the General Fund. A legal limitation is adopted for land, buildings and improvements; however, legislation allows the Department to spend in excess of its appropriation for state highway construction up to the current fund balance. The Department monitors expenditures through an internal budgetary process and the Five-Year Transportation Facilities Construction Program approved by the Transportation Board.

The Department has elected to report the budgetary comparison as required supplementary information (RSI). The Department is required to report as notes to RSI: any budgetary expenditures in excess of appropriations, budgetary basis of accounting used for the adopted budgets and reconciliation between the budgetary basis of accounting and accounting principles generally accepted in the United States (GAAP).

Arizona Department of Transportation
Required Supplementary Information
June 30, 2003

Explanation of differences between budgetary inflows and outflows and GAAP revenues and expenditures:

Sources/inflows of resources:

Actual amounts from the Schedule of Revenues and Expenditures - Budget and Actual	\$ 535,575,188
Net (increase) decrease in receivable related to fuel and motor carrier taxes and vehicle registration, title, license, and related fees not recognized as revenue on budgetary basis	5,470,018
Revenues which are on the modified accrual basis and not recognized on budgetary basis:	
Federal aid reimbursements of construction expenditures from the Federal Highway Administration	380,890,972
Federal grants and reimbursements related to elderly and disabled assistance, planning assistance and community assistance from the Federal Transit Administration	6,895,652
State and local reimbursements related to grants from Arizona counties, cities and other state agencies	15,943,303
Distribution from other state agencies	1,284,044
Investment interest and loan interest income from Treasurer and loan agreements	10,227,820
Other income	3,237,952
Sale of capital assets	1,713,913
Rental income	1,184,752
Insurance recovery	<u>1,081,803</u>
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (General Fund - Exhibit 4)	<u>\$ 963,505,417</u>

Uses/outflows of resources:

Actual amounts from the Schedule of Revenues and Expenditures - Budget and Actual	\$ 300,410,341
Net increase (decrease) in accounts payable, accrued payroll and other accruals not recognized as expenditures for budgetary basis	1,757,078
Expenditures which are on the modified accrual basis and not recognized on budgetary basis:	
Transportation expenditures from sources not appropriated by state legislature	9,594,090
Capital outlay are outflows of highway construction expenditures from state appropriation and federal aid reimbursements	503,097,493
Highway maintenance - asset preservation	125,327,622
Distributions to other state agencies	12,035,783
Interest expense on loans borrowed from the Highway Expansion and Extension Loan Program	<u>2,779,516</u>
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds (General Fund - Exhibit 4)	<u>\$ 955,001,923</u>

Arizona Department of Transportation
Required Supplementary Information
June 30, 2003

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34), the Arizona Department of Transportation (Department) reports its roads and bridges using the modified approach. Assets accounted for under the modified approach include approximately 6,801 centerline miles (18,129 travel lane miles) of roads and 4,463 bridges that the Department is responsible to maintain.

In order to utilize the modified approach, the Department is required to:

- Maintain an asset management system that includes an up to date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Department.
- Document that the assets are being preserved approximately at or above the established condition level.

As adopted by the State Transportation Board on an annual basis, the Five-Year Transportation Facilities Construction Program contains estimated expenditures for highway system improvements and the preservation of existing roadway and bridges. Both of these factors impact the condition assessment of the roads and bridges as described in the following sections. The Five-Year Transportation Facilities Construction Program in effect for fiscal year 2003 and beyond was adopted by the Transportation Board on June 25, 2002.

The following information pertains to the condition assessment and maintenance of infrastructure assets.

Roads

The mission of the ADOT Pavement Management Section (PMS) is to develop and provide a cost effective pavement rehabilitation construction program that preserves the state’s investment in its highway system and enhances public transportation and safety. The requirements of GASB 34 and the ADOT PMS both work toward the same basic goal, the efficient, effective management of ADOT assets to produce long term benefits while minimizing expenditures.

The PMS has developed performance goals for the condition level of the pavement in the state highway system. These goals require periodic assessment of pavement conditions and the budget level needed to meet that goal. The goal is expressed as a measure called “Serviceability” which can be defined as the ability of a pavement to serve the travelling public (as documented in 1961 after AASHTO Road Test, 1956-1961). Serviceability is based on detailed measurements of objective features of the pavement. Many surveys since the original road test have shown that these measurements closely track the subjective opinion of the travelling public. Most commonly, this number is called Present Serviceability Rating and abbreviated as PSR. PSR is a five-point scale (5 excellent, 0 impassable), similar to the Weaver/AASHTO Scale shown as follows:

Numerical Rating	PSR	Weaver/AASHTO Scale
5	Excellent	Perfect
4	Good	Very Good
3	Fair	Good
2	Poor	Fair
1	Very Poor	Poor
0	Impassable	Very Poor

Information About Infrastructure Assets Reported Using the Modified Approach - continued

The goal of the Arizona Department of Transportation is to maintain a condition level (PSR) rating of 3.23 or better for all roads in the state highway system. Annually, Transportation Material Technicians drive over the system with inertial profiling equipment and measure the roughness of the pavement. This process is continuous throughout the year in order to assess the condition level of all pavement on an annual basis. As of the end of fiscal year 2003, an overall rating of 3.6 was achieved, as shown in the following graph:

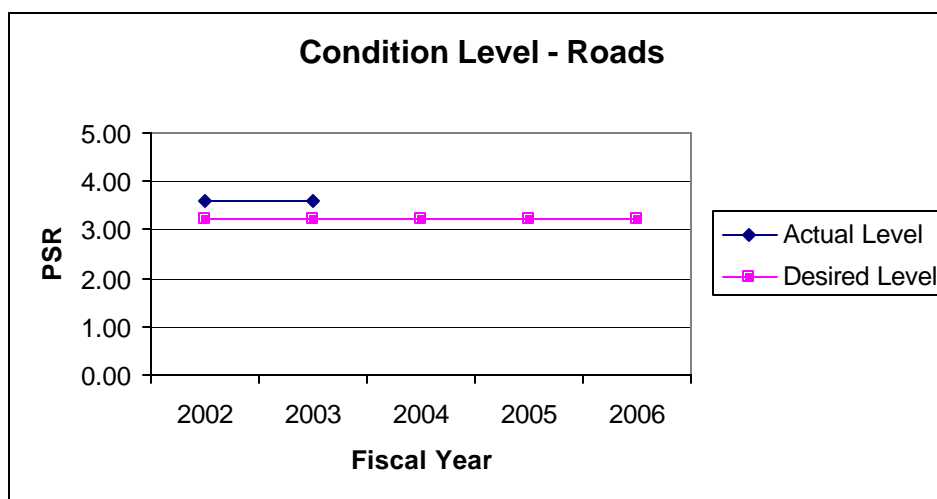


Figure 1

Preservation of the roads is accomplished through programs managed primarily by the ADOT PMS, as well as other units within the Department. The estimated and actual expenditures for fiscal years 2002 and 2003 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2002	\$227.4	\$234.8
2003	\$243.5	\$220.8

Bridges

ADOT's bridge assets constitute a significant portion of all infrastructure assets in Arizona. As of June 30, 2003, ADOT owns and maintains 4,463 bridges with an approximate total deck area of 40,841,425 square feet. Bridges, for purposes of this report, include all structures erected over an opening or depression with a centerline of 20 feet or more. Information related to these bridges is stored and updated in the Arizona Bridge Information and Storage System (ABISS). This system is used to efficiently manage the bridge inventory through storing all bridge related data and assisting bridge engineers in arriving at appropriate bridge preservation decisions. Also, ABISS is used for reporting bridge inventory and condition, on a biennial basis, to the Federal Highway Administration (FHWA).

A Condition Rating Index (CRI) is used to track the condition of the bridge network. The CRI is based on four selected bridge inspection condition ratings, which in turn are based on standards established in the FHWA's "Recording and Coding Guide for the Structural Inventory of the Nation's Bridges". The four selected condition

Arizona Department of Transportation
Required Supplementary Information
June 30, 2003

ratings that are included in the CRI computation are: the bridge joints condition, the deck condition, the superstructure condition, and the substructure condition. The bridge joints condition rating is an Arizona specific rating

Information About Infrastructure Assets Reported Using the Modified Approach - continued

item not included in the FHWA condition rating guidelines, whereas the three other condition ratings are federally mandated condition ratings. The CRI is computed by subtracting from one the ratio of the sum of the deck areas of all bridges with a condition rating of four or less, which indicates that the rated element is at best in a poor condition, to the total sum of the deck areas. The rating system in this guide is as follows:

Numerical Rating	Condition Rating
9	Excellent
8	Very Good
7	Good
6	Satisfactory
5	Fair
4	Poor
3	Serious
2	Critical
1	Imminent Failure

Management of the bridge inventory is a major function of ADOT's Bridge Group and regularly scheduled biennial inspections are made of all bridges. A civil or structural engineer, licensed to practice in Arizona, performs these inspections. It is the policy of ADOT to maintain state highway bridges so that the CRI exceeds 92.5%. In fiscal year 2003, the CRI was computed at 93.9%.

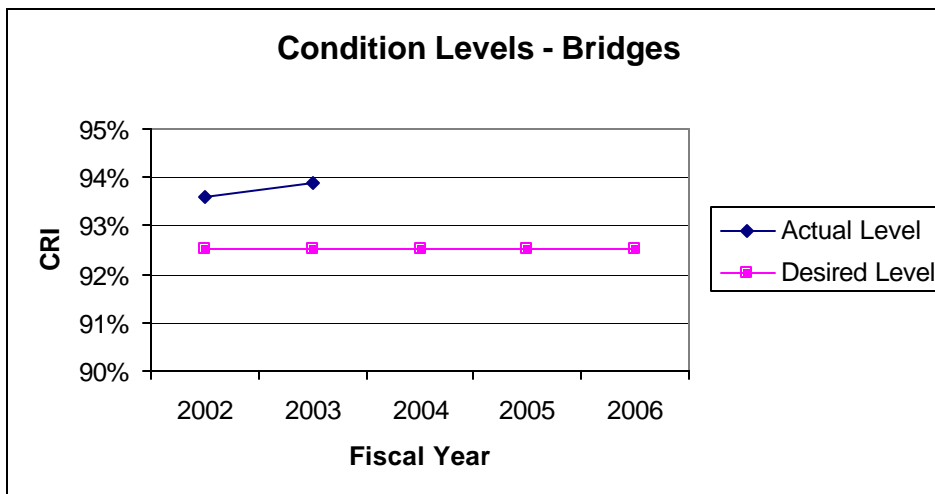


Figure 2

Bridges represent a major public investment and their inspection and maintenance is an essential function of the Department in its mission of products and services for a safe, efficient, and cost effective transportation system. Figure 3 indicates that approximately 65% of the bridges in the state were constructed prior to the 1970s while only 22% have been constructed in the last two decades.

Information About Infrastructure Assets Reported Using the Modified Approach - continued

Age of ADOT's Bridge Population

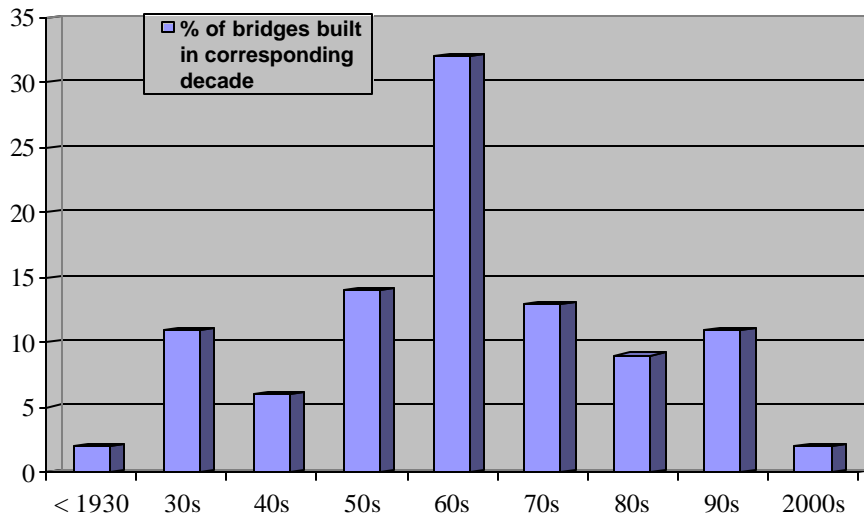


Figure 3

Preservation of the bridges is accomplished through programs managed by the Bridge Group. The estimated and actual expenditures for fiscal years 2002 and 2003 were as follows:

Fiscal Year	Estimated Expenditures (in millions)	Actual Expenditures (in millions)
2002	\$14.4	\$18.2
2003	\$13.6	\$15.8

Non-Major Governmental Funds Financial Statements

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

The State Aviation Fund is appropriated by the legislature and receives monies from aviation gasoline taxes, sale of abandoned or seized aircraft, flight property taxes and the operation of certain airports. The State Aviation Fund monies are used to build and maintain airport facilities.

The Safety Enforcement and Transportation Infrastructure Fund is appropriated by the legislature and receives monies from the registration of vehicles of nonresidents for enforcement of vehicle safety requirements, maintenance of transportation facilities and upgrades of transportation facilities, including roads, streets, and highways, approved by the Transportation Board within twenty-five miles of the border between Arizona and Mexico.

The Motor Vehicle Liability Insurance Enforcement Fund receives fees and interest to administer the State's Mandatory Liability Insurance Program.

The Vehicle Inspection and Title Enforcement Fund receives monies from continuing appropriation to be used to defray the cost of investigations involving certificates of title, licensing fraud, registration enforcement and other enforcement related issues.

The Motor Carrier Safety Revolving Fund receives fees to administer and enforce the rules governing the safety operations of motor carriers, shippers and vehicles transporting hazardous materials, substances or waste.

The Motorcycle Safety Education Fund provides support for the motorcycle licensing and education programs that promote motorcycle safety.

The Underground Storage Tank Fund receives certain Motor Vehicle Division revenues for distribution to the Department of Environmental Quality.

The Economic Strength Project Fund collects monies from the Highway User Revenue Fund for use on approved economic strength projects recommended by the Commerce and Economic Development Commission.

The Grant Anticipation Notes Fund receives revenues from the Federal Highway Administration under a grant agreement and certain other federal-aid revenues to accelerate highway construction projects.

The Local Agency Deposits Fund receives monies from the U.S. Government and local agencies for the payment of local agency sponsored county secondary road construction projects.

Arizona Department of Transportation
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2003

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Vehicle Inspection and Title Enforcement Fund	Motor Carrier Safety Revolving Fund	Motorcycle Safety Education Fund
ASSETS						
Unrestricted cash on deposit with the State Treasurer	\$ 6,933,426	\$ 2,125,116	\$ 5,324,913	\$ 1,431,603	\$ 9,125	\$ 13,938
Receivables:						
Accrued interest	111,393	7,500	-	-	-	-
Interfund	57,291	5,932	21,250	8,060	-	1,187
Notes and loans	4,993,698	-	-	-	-	-
Other	360,378	-	-	-	-	-
Amounts due from:						
U.S. Government	241,996	-	-	-	-	-
Other state agencies	-	12,669	-	-	-	-
Restricted cash on deposit with the State Treasurer	-	-	-	-	-	-
Total assets	<u>\$ 12,698,182</u>	<u>\$ 2,151,217</u>	<u>\$ 5,346,163</u>	<u>\$ 1,439,663</u>	<u>\$ 9,125</u>	<u>\$ 15,125</u>
LIABILITIES						
Accounts payable	\$ 128,530	\$ 37,817	\$ -	\$ -	\$ -	\$ -
Accrued payroll and other accrued expenditures	38,621	15,559	23,819	20,649	-	-
Contracts and retainage payable	-	-	-	-	-	-
Amounts due to:						
Arizona counties and cities	-	-	-	-	-	-
Other state agencies	-	-	-	-	-	15,125
Deferred revenue	4,993,698	-	-	-	-	-
Total liabilities	<u>5,160,849</u>	<u>53,376</u>	<u>23,819</u>	<u>20,649</u>	<u>-</u>	<u>15,125</u>
FUND BALANCES						
Reserved:						
Debt service	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
Unreserved special revenue funds	7,537,333	2,097,841	5,322,344	1,419,014	9,125	-
Total fund balances	<u>7,537,333</u>	<u>2,097,841</u>	<u>5,322,344</u>	<u>1,419,014</u>	<u>9,125</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 12,698,182</u>	<u>\$ 2,151,217</u>	<u>\$ 5,346,163</u>	<u>\$ 1,439,663</u>	<u>\$ 9,125</u>	<u>\$ 15,125</u>

Underground Storage Tank Fund	Economic Strength Project Fund	Grant Anticipation Notes Fund	Local Agency Deposits Fund	Total Non-major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 15,838,121
785	4,391	6,289	-	130,358
-	-	-	-	93,720
-	-	-	-	4,993,698
2,346,839	66,140	-	777,768	3,551,125
-	-	-	1,892,857	2,134,853
-	-	-	40,552	53,221
<u>3,228,768</u>	<u>2,807,468</u>	<u>2,234,384</u>	<u>5,620,248</u>	<u>13,890,868</u>
<u>\$ 5,576,392</u>	<u>\$ 2,877,999</u>	<u>\$ 2,240,673</u>	<u>\$ 8,331,425</u>	<u>\$ 40,685,964</u>
\$ -	\$ -	\$ -	\$ -	\$ 166,347
-	-	-	-	98,648
-	66,140	-	2,708,241	2,774,381
-	2,811,859	-	-	2,811,859
5,576,392	-	-	-	5,591,517
-	-	-	-	4,993,698
<u>5,576,392</u>	<u>2,877,999</u>	<u>-</u>	<u>2,708,241</u>	<u>16,436,450</u>
-	-	2,240,673	-	2,240,673
-	-	-	5,623,184	5,623,184
-	-	-	-	16,385,657
<u>-</u>	<u>-</u>	<u>2,240,673</u>	<u>5,623,184</u>	<u>24,249,514</u>
<u>\$ 5,576,392</u>	<u>\$ 2,877,999</u>	<u>\$ 2,240,673</u>	<u>\$ 8,331,425</u>	<u>\$ 40,685,964</u>

Arizona Department of Transportation
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the fiscal year ended June 30, 2003

	State Aviation Fund	Safety Enforcement and Transportation Infrastructure Fund	Motor Vehicle Liability Insurance Enforcement Fund	Vehicle Inspection and Title Enforcement Fund	Motor Carrier Safety Revolving Fund
Revenues:					
Vehicle registration, title, license and related taxes and fees	\$ 3,916,792	\$ 3,071,599	\$ 2,811,575	\$ 1,428,550	\$ 1,000
Fuel and motor carrier taxes and fees	1,127,101	-	-	-	-
Reimbursement of construction expenditures - federal aid	241,996	-	-	-	-
Reimbursements from other state agencies	-	-	-	-	-
Interest on loans receivable	250,137	-	-	-	-
Interest on investments	304,889	79,499	-	-	-
Flight property taxes	6,026,213	-	-	-	-
Grand Canyon National Park Airport	717,168	-	-	-	-
Other	135,210	12,669	-	-	-
Total revenues	<u>12,719,506</u>	<u>3,163,767</u>	<u>2,811,575</u>	<u>1,428,550</u>	<u>1,000</u>
Expenditures:					
Current:					
Transportation - appropriated by state legislature:					
Highway	-	-	-	-	-
Motor Vehicle	-	2,052,555	1,023,995	953,152	-
Aeronautics	3,579,192	-	-	-	-
Other	-	-	-	-	-
Total Transportation - appropriated by State legislature	<u>3,579,192</u>	<u>2,052,555</u>	<u>1,023,995</u>	<u>953,152</u>	<u>-</u>
Distributions to Arizona counties and cities	11,256,956	1,128,700	-	-	-
Distributions to other state agencies	4,500,335	1,080,000	-	107,700	334
Highway maintenance - asset preservation	-	2,392	-	-	-
Capital outlay	-	1,367,724	-	-	-
Total expenditures	<u>19,336,483</u>	<u>5,631,371</u>	<u>1,023,995</u>	<u>1,060,852</u>	<u>334</u>
Excess <deficiency> of revenues over <under> expenditures	<6,616,977>	<2,467,604>	1,787,580	367,698	666
Other financing sources <uses>:					
Interfund transfers out for debt service	-	-	-	-	-
Interfund transfers out other	-	<3,164>	-	-	-
Total other financing sources <uses>	<u>-</u>	<u><3,164></u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<6,616,977>	<2,470,768>	1,787,580	367,698	666
Fund balances - July 1	<u>14,154,310</u>	<u>4,568,609</u>	<u>3,534,764</u>	<u>1,051,316</u>	<u>8,459</u>
Fund balances - June 30	<u>\$ 7,537,333</u>	<u>\$ 2,097,841</u>	<u>\$ 5,322,344</u>	<u>\$ 1,419,014</u>	<u>\$ 9,125</u>

Motorcycle Safety Education Fund	Underground Storage Tank Fund	Economic Strength Project Fund	Grant Anticipation Notes Fund	Local Agency Deposits Fund	Total Non-major Governmental Funds
\$ 69,463	\$ 34,945,749	\$ -	\$ -	\$ -	\$ 46,244,728
13,546	-	500,000	-	-	1,640,647
-	-	-	21,833,402	25,439,086	47,514,484
-	-	-	-	5,080,264	5,080,264
-	-	-	-	-	250,137
-	-	61,303	47,477	-	493,168
-	-	-	-	-	6,026,213
-	-	-	-	-	717,168
-	-	21,952	-	41,265	211,096
<u>83,009</u>	<u>34,945,749</u>	<u>583,255</u>	<u>21,880,879</u>	<u>30,560,615</u>	<u>108,177,905</u>
-	-	-	-	30,235,385	30,235,385
-	-	-	-	-	4,029,702
-	-	-	-	-	3,579,192
-	-	-	3,283	-	3,283
-	-	-	3,283	30,235,385	37,847,562
-	-	583,255	-	-	12,968,911
160,071	34,945,749	-	-	-	40,794,189
-	-	-	-	-	2,392
-	-	-	-	-	1,367,724
<u>160,071</u>	<u>34,945,749</u>	<u>583,255</u>	<u>3,283</u>	<u>30,235,385</u>	<u>92,980,778</u>
<77,062>	-	-	21,877,596	325,230	15,197,127
-	-	-	<21,833,402>	-	<21,833,402>
-	-	-	-	<91,112>	<94,276>
-	-	-	<21,833,402>	<91,112>	<21,927,678>
<77,062>	-	-	44,194	234,118	<6,730,551>
77,062	-	-	2,196,479	5,389,066	30,980,065
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,240,673</u>	<u>\$ 5,623,184</u>	<u>\$ 24,249,514</u>

Arizona Department of Transportation
Statement of Changes in Assets and Liabilities
Agency Funds
For the fiscal year ended June 30, 2003

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
<u>Highway Properties - Privilege Tax</u>				
ASSETS				
Restricted cash on deposit with the State Treasurer	\$ 237	\$ 2,924	\$ <2,908>	\$ 253
Total assets	<u>\$ 237</u>	<u>\$ 2,924</u>	<u>\$ <2,908></u>	<u>\$ 253</u>
LIABILITIES				
Due to Department of Revenue	\$ 237	\$ 2,924	\$ <2,908>	\$ 253
Total liabilities	<u>\$ 237</u>	<u>\$ 2,924</u>	<u>\$ <2,908></u>	<u>\$ 253</u>
<u>Highway Properties - 24 % Lieu Tax</u>				
ASSETS				
Restricted cash on deposit with the State Treasurer	\$ 365,471	\$ 600,478	\$ <377,828>	\$ 588,121
Total assets	<u>\$ 365,471</u>	<u>\$ 600,478</u>	<u>\$ <377,828></u>	<u>\$ 588,121</u>
LIABILITIES				
Due to Arizona counties	\$ 365,471	\$ 600,478	\$ <377,828>	\$ 588,121
Total liabilities	<u>\$ 365,471</u>	<u>\$ 600,478</u>	<u>\$ <377,828></u>	<u>\$ 588,121</u>

Capital Assets

Arizona Department of Transportation
Capital Assets Used in the Operation of Governmental Funds
Schedule by Source¹
June 30, 2003 and 2002

	2003	2002
Governmental funds capital assets:		
Land	\$ 1,839,172,464	\$ 1,715,941,418
Buildings and improvements	145,247,665	142,715,993
Improvements other than buildings	33,168,583	32,948,803
Machinery and equipment	40,208,658	41,992,797
Infrastructure	7,564,772,978	7,444,327,275
Construction in progress	1,852,537,010	1,385,665,135
Total governmental funds capital assets	<u>\$ 11,475,107,358</u>	<u>\$ 10,763,591,421</u>
 Investment in governmental funds capital assets by source:		
Government funds	\$ 11,475,107,358	\$ 10,763,591,421
Total governmental funds capital assets	<u>\$ 11,475,107,358</u>	<u>\$ 10,763,591,421</u>

¹ This schedule presents only the capital assets balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net assets.

Arizona Department of Transportation
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity¹
June 30, 2003

Function and Activity	Land	Buildings and Improvements	Improvements other than Buildings	Machinery and Equipment	Infrastructure	Construction in Progress	Total
Administration	\$ 879,017	\$ 14,828,184	\$ 749,984	\$ 8,675,598	\$ -	\$ -	\$ 25,132,783
Aeronautics	-	21,604	19,593,875	980,728	-	-	20,596,207
Highway:							
Administrative and other services	935,955	33,833,319	1,528,027	3,663,112	-	-	39,960,413
Highway construction	1,822,628,102	4,648,473	276,396	5,031,777	7,564,772,978	1,852,537,010	11,249,894,736
Highway development	-	-	-	3,063,953	-	-	3,063,953
Materials engineering	-	4,844,126	-	3,540,296	-	-	8,384,422
Traffic engineering	-	320,207	21,667	895,264	-	-	1,237,138
Transportation planning and research	-	-	122,946	687,787	-	-	810,733
Highway Maintenance	4,907,328	40,514,116	7,785,973	5,379,506	-	-	58,586,923
Motor Vehicle	9,822,062	46,237,636	3,089,715	8,290,637	-	-	67,440,050
Total governmental funds capital assets	\$ 1,839,172,464	\$ 145,247,665	\$ 33,168,583	\$ 40,208,658	\$ 7,564,772,978	\$ 1,852,537,010	\$ 11,475,107,358

¹ This schedule presents only the capital assets balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net assets.

Arizona Department of Transportation
Capital Assets used in the Operation of Governmental Funds
Schedule of Changes by Function and Activity¹
For the fiscal year ended June 30, 2003

Function and Activity	Governmental Funds Capital Assets	Additions	Deductions	Governmental Funds Capital Assets
	July 1, 2002			June 30, 2003
Administration	\$ 28,369,077	\$ 1,413,384	\$ <4,649,678>	\$ 25,132,783
Aeronautics	20,604,435	9,529	<17,757>	20,596,207
Highway:				
Administrative and other services	39,697,437	417,138	<154,162>	39,960,413
Highway construction	9,152,744,107	248,912,509	<4,298,890>	9,397,357,726
Highway development	3,069,269	46,063	<51,379>	3,063,953
Materials engineering	8,152,100	401,606	<169,284>	8,384,422
Traffic engineering	1,303,836	15,585	<82,283>	1,237,138
Transportation planning and research	832,416	40,297	<61,980>	810,733
Highway Maintenance	57,729,605	1,030,667	<173,349>	58,586,923
Motor Vehicle	65,424,004	2,809,603	<793,557>	67,440,050
Functional sub-total	9,377,926,286	255,096,381	<10,452,319>	9,622,570,348
Construction in progress	1,385,665,135	587,621,490	<120,749,615>	1,852,537,010
Total governmental funds capital assets	\$ 10,763,591,421	\$ 842,717,871	\$ <131,201,934>	\$ 11,475,107,358

¹ This schedule presents only the capital assets balances related to governmental funds. Accordingly, the capital assets reported in the internal service fund are excluded from the above amounts. Generally, the capital assets of the internal service fund are included as governmental activities in the statement of net assets.

Table 1

Arizona Department of Transportation
Government-wide Expense by Function
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal				Highway	Motor	Distributions to		Interest on		Arizona	Highway	Expansion	
Year	Administration	Aeronautics	Highway	Maintenance/1	Vehicle	counties, cities	Inter-	long-term	Other/2	Highways	Magazine	Loan	Total
2003	\$ 52,533	\$ 3,848	\$ 45,644	\$ 364,737	\$ 83,090	and other State	governmental	debt	\$18,051	\$ 11,118	\$ 26,349	\$ 1,869,282	
2002	57,864	3,751	46,543	180,716	82,904	agencies			14,326	10,711	5,265	1,581,036	

Note: Implemented GASB 34 in fiscal year 2002. Therefore, government-wide financial information for years prior to fiscal year 2002 is not available.

1 Includes Highway Maintenance - asset preservation

2 Includes Transportation - not appropriated by the State legislature

Table 2

Arizona Department of Transportation
Government-wide Revenues
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Program Revenues			General Revenues			Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Taxes	Other Revenues	Interest on Investments	
2003	\$ 130,889	\$ 34,160	\$ 453,758	\$ 1,798,243	\$ 21,729	\$ 22,243	\$ 2,461,022
2002	124,565	56,481	470,772	1,798,243	27,148	35,488	2,512,697

Note: Implemented GASB 34 in fiscal year 2002. Therefore, government-wide financial information for years prior to fiscal year 2002 is not available.

Statistical

Table 3

Arizona Department of Transportation
General Governmental Expenditures by Functions/Programs
Last Ten Fiscal Years
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Administration/1	Aeronautics	Highway/2	Highway Maintenance	Motor Vehicle	Transportation - not appropriated by the State legislature	Distributions to Arizona counties, cities and other State agencies/3	Debt Service	Capital Outlay and Maintenance /4	Other/5	Total
2003	\$ 51,485	\$ 3,579	\$ 74,244	\$ 94,978	\$ 81,518	\$ 9,594	\$ 1,146,840	\$ 330,203	\$ 979,900	\$ 7,507	\$ 2,779,848
2002	56,230	3,491	68,369	89,314	81,012	7,480	1,038,314	292,979	1,098,437	7,507	2,743,133
2001	48,150	18,280	43,117	89,400	77,337	-	-	292,930	1,008,590	34,310	1,612,114
2000	47,847	21,640	42,302	83,398	74,492	-	-	253,823	941,913	43,927	1,509,342
1999	44,648	26,787	42,035	79,304	67,144	-	-	226,928	853,695	62,600	1,403,141
1998	43,914	30,734	41,381	76,597	63,056	-	-	199,948	602,955	65,625	1,124,210
1997	43,981	18,975	40,230	70,336	30,147	-	-	210,446	540,203	84,433	1,038,751
1996	36,406	11,107	111,884	-	33,486	-	-	200,364	555,087	87,960	1,036,294
1995	36,933	9,239	111,876	-	35,221	-	-	182,554	418,601	57,757	852,181
1994	45,363	13,579	107,756	-	27,992	-	-	181,519	481,538	78,254	936,001

② Notes: FY 2002 includes expenditures that were considered Agency Funds in prior years.

/1 Includes the Director's Office, Financial Management (formerly Administrative) Services, Transportation Services Group and the Department's Risk Management Premium.

/2 Includes Transportation Planning for FY 1997-2000.
Includes Highway Maintenance for FY 1994-1996.

/3 FY 2002 includes expenditures that are distributed to General Fund, Cities, Counties and other State Agencies.

/4 Named Highway Construction in years prior to FY 2002. For years prior to 1999, includes Expendable Trust Fund.

/5 FY 2002 includes interest on loans payable, State appropriations and DPS distributions - appropriated by State legislature.

FY 2001 includes other and Arizona Department of Public Safety (DPS) distributions - appropriated by State legislature.

Includes Transportation not appropriated, Land, Buildings & Improvements, Leases Payable and Transfers for FY 1997-2000.

Includes Reimbursements, Transfers, Director's Office, Highway Safety Office and Land, Buildings and Improvements for FY 1994-1996.

Table 4

Arizona Department of Transportation
General Governmental Revenues by Source
Last Ten Fiscal Years
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Transportation Excise Taxes/1	Motor Fuel Taxes and Fees/1	Vehicle Reg., Title, License and Related Fees/1	Expenditures of Federal Awards /2	Reimburse- ments	Interest on Investments	Other/3	Total /4
2003	\$ 268,721	\$ 690,869	\$ 940,023	\$ 466,354	\$ 26,102	\$ 19,702	\$25,191	2,436,962
2002	267,563	547,129	1,003,499	522,036	12,664	29,697	34,405	2,416,993
2001	-	300,750	219,746	428,290	17,150	44,648	292,416	1,303,000
2000	-	276,189	255,088	414,015	18,788	41,534	267,004	1,272,618
1999	-	298,394	250,121	401,464	15,748	34,377	257,479	1,257,583
1998	-	273,806	210,370	283,982	8,505	34,382	223,486	1,034,531
1997	-	288,878	198,002	305,438	15,083	33,238	231,792	1,072,431
1996	-	291,000	171,823	268,605	32,711	29,603	228,698	1,022,440
1995	-	293,870	133,689	225,607	17,808	22,340	190,498	883,812
1994	-	280,394	117,412	261,000	13,130	14,229	177,561	863,726

Notes: FY 2002 includes revenues that were considered Agency Funds in prior years.

/1 FY 2002 include revenues that are being collected for distribution to General Fund, Cities, Counties and other State Agencies.

/2 For years prior to 1999, includes Expendable Trust Fund.

/3 Includes interest on loans receivable, flight property taxes, Grand Canyon National Airport and other.

/4 Method of accounting for taxpayer assessed revenues has been changed due to the adoption of GASB Statement No. 22 during fiscal year 1995.

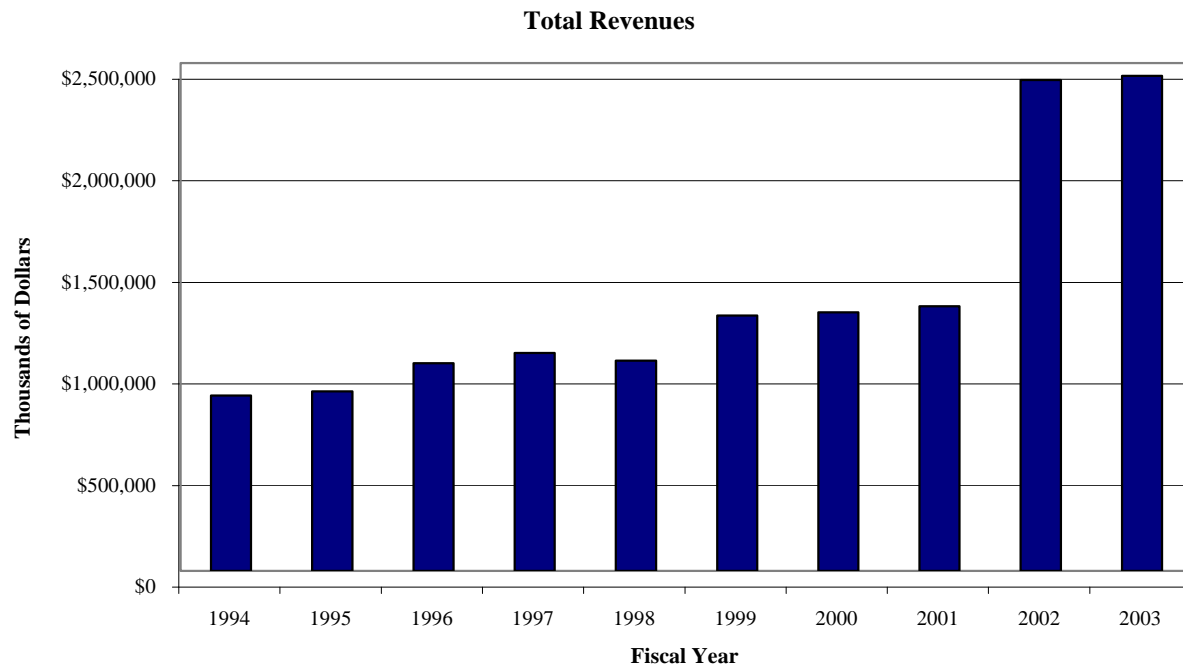


Table 5

Arizona Department of Transportation
Expenditures of Federal Awards /1
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	FAA	FRA	FTA	NHTSA	FHWA	FMCSA	BLM	BIA	Sub-total	FHWA /2	Total
2003	\$ 242	\$ -	\$ 6,618	\$ 87	\$433,472	\$ 466	\$ 30	\$ -	\$440,915	\$ 25,439	\$ 466,354
2002	-	3	5,264	83	496,509	282	47	-	502,188	19,848	522,036
2001	-	14	4,746	65	390,204	-	-	-	395,029	33,261	428,290
2000	6	2	3,717	65	393,958	-	-	1,048	398,796	15,219	414,015
1999	6,278	69	5,107	275	371,013	-	-	974	383,716	17,748	401,464
1998	2,379	14	3,392	49	278,148	-	-	-	283,982	-	283,982
1997	91	130	2,508	-	302,633	-	-	76	305,438	-	305,438
1996	506	499	3,552	-	261,820	-	-	2,228	268,605	-	268,605
1995	849	475	1,687	-	221,818	-	28	750	225,607	-	225,607
1994	129	437	3,448	-	256,986	-	-	-	261,000	-	261,000

SOURCE: Single Audit Reports - fiscal years 1994 through 2003.

NOTES: /1 Federal Aviation Administration (FAA); Federal Railroad Administration (FRA); Federal Transit Administration (FTA) - previously Urban Mass Transit Administration (UMTA); National Highway Transportation Safety Administration (NHTSA); Federal Highway Administration (FHWA); Federal Motor Carrier Safety Administration (FMCSA); Bureau of Land Management (BLM); Bureau of Indian Affairs (BIA); and Department of Agriculture (DOA).
/2 Prior to 1999, the Local Agency Deposits Fund was an Expendable Trust Fund. It is now a Special Revenue Fund.

Total Expenditures of Federal Awards

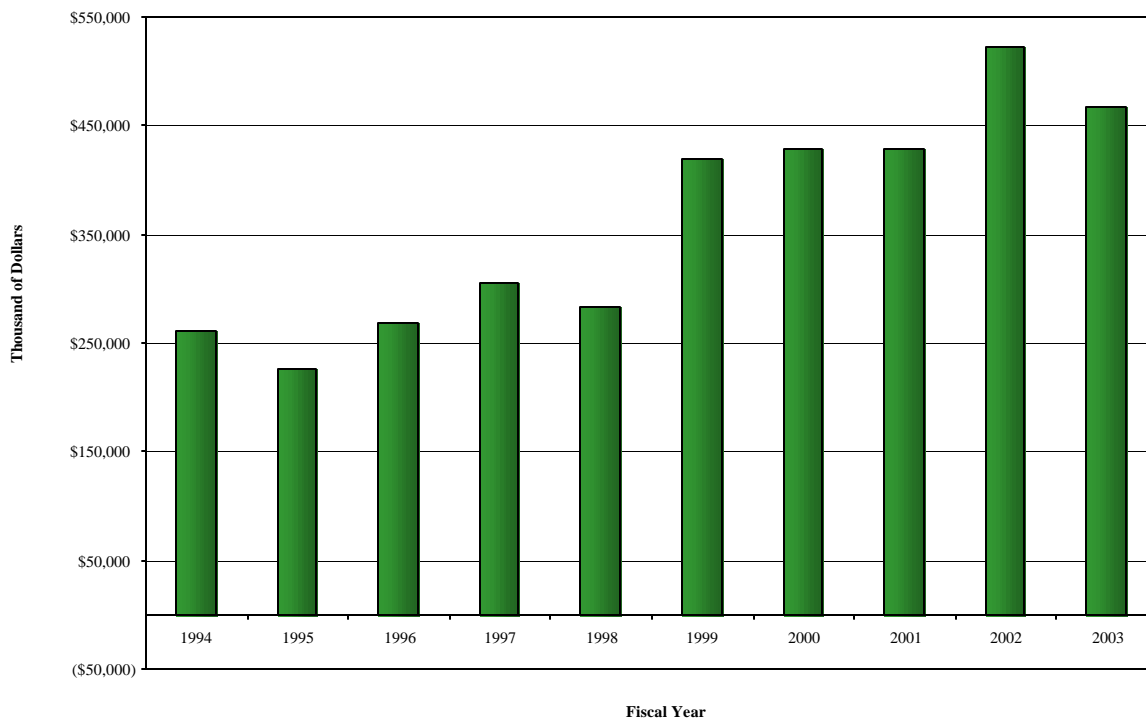


Table 6

Arizona Department of Transportation
 Fuel Tax Rates
 For the fiscal year ended June 30
 (Cents per Gallon)

<u>Fiscal Year</u>	<u>Effective Date</u>	<u>Gasoline Tax</u>	<u>Use Fuel Tax /1</u>
2003	-	18	26
2002	-	18	26
2001	07/01/2000	18	26
2000	-	18	27
1999	-	18	27
1998	12/31/1997	18	27
1997	-	18	18
1996	-	18	18
1995	-	18	18
1994	-	18	18

SOURCE: Arizona Revised Statutes §28-5606, §28-5708

NOTE: Gasohol is currently taxed at the same rate as gasoline
 and use fuel. Use fuel is primarily diesel fuel.

/1 Lightweight motor vehicles under 26,000 pounds pay \$.18 per gallon.

Table 7

Arizona Department of Transportation
Highway User Revenue Fund Collections
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Motor Veh. Fuel Tax Revenue	Motor Veh. Reg. Fee Revenues	Motor Carrier Tax Revenues	Motor Veh. Operators' License Fees and Other Fees	Motor Veh. License (In Lieu) Tax Revenues	Total Deposited To Arizona Hwy. User Rev. Fund
2003	\$ 633,826	\$ 158,726	\$ 23,302	\$ 39,906	\$ 276,279	\$ 1,132,039
2002	629,360	151,437	11,896	40,122	259,308	1,092,123
2001	566,115	148,336	15,094	43,248	251,496	1,024,289
2000	545,901	158,424	15,040	43,508	235,287	998,160
1999	636,117	145,340	14,409	15,939	217,905	1,029,710
1998	508,544	109,445	56,123	36,426	176,950	887,488
1997	488,701	101,528	90,186	41,294	175,253	896,962
1996	473,741	97,601	85,433	42,654	160,145	859,574
1995	451,089	86,159	92,103	39,238	131,562	800,151
1994	422,556	83,826	118,530	37,161	113,990	776,063

SOURCES: General Purpose Financial Statement - Fiscal Years 1999 through 2003.
Arizona Highway User Revenue Fund Revenue Collections by Category -
Fiscal Years 1994 through 1998.

Highway User Revenue Fund Collections

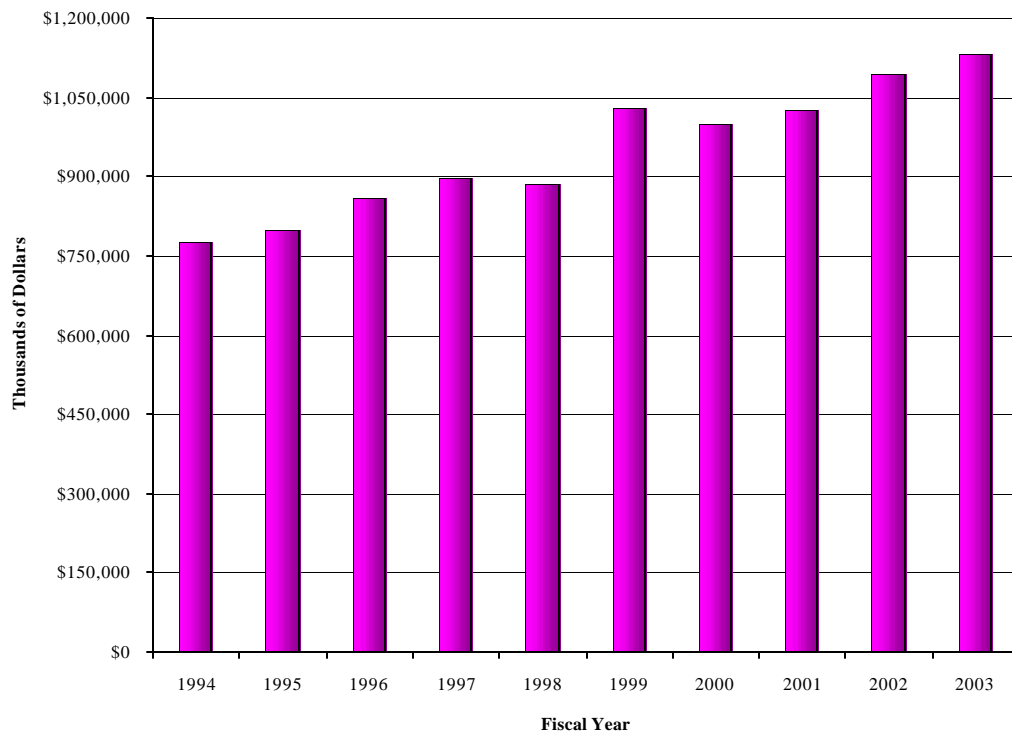


Table 8

Arizona Department of Transportation
Highway User Revenue Fund Distributions
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	State Highway Fund /1	Cities and Towns	Counties	Department of Public Safety	Economic Strength Project Fund	Other /2	Total
2003	\$ 537,668	\$ 324,431	\$ 202,105	\$ 54,416	\$ 1,000	\$ 12,419	\$ 1,132,039
2002	519,837	312,252	195,530	37,066	1,000	26,438	1,092,123
2001	503,611	305,009	188,982	10,937	1,000	14,750	1,024,289
2000	493,697	323,798	157,594	13,622	1,000	8,449	998,160
1999	512,149	295,879	199,591	12,630	1,000	8,461	1,029,710
1998	435,882	263,220	163,973	14,688	1,000	8,519	887,282
1997	444,927	268,696	167,350	17,188	1,000	9,289	908,450
1996	429,171	256,901	152,571	19,688	1,000	9,304	868,635
1995	412,206	244,512	145,349	20,000	1,000	9,084	832,151
1994	406,376	205,479	134,511	24,925	1,000	532	772,823

The Highway User Revenue Fund receives certain Motor Vehicle Division revenues from the Motor Vehicle Division Clearing Fund. These monies are distributed to the State Highway Fund and various counties and cities, based on statutory formulas.

SOURCES: General Purpose Financial Statement - Fiscal Years 1994 through 2003.
Monthly Reports MV675580-01 fiscal years 1994 through 2003 (adjusted for accrual basis).

NOTES: /1 In fiscal year 1995, HB 2431 authorized the transfer of \$1 million for border transportation projects.

/2 Appropriation to the Motor Vehicle Division for funding of mandatory insurance enforcement administration for fiscal year 1994. In fiscal years 1995 through 2003, an appropriation for Arizona State Parks is included. Fiscal year 2002 includes distribution to State General Fund.

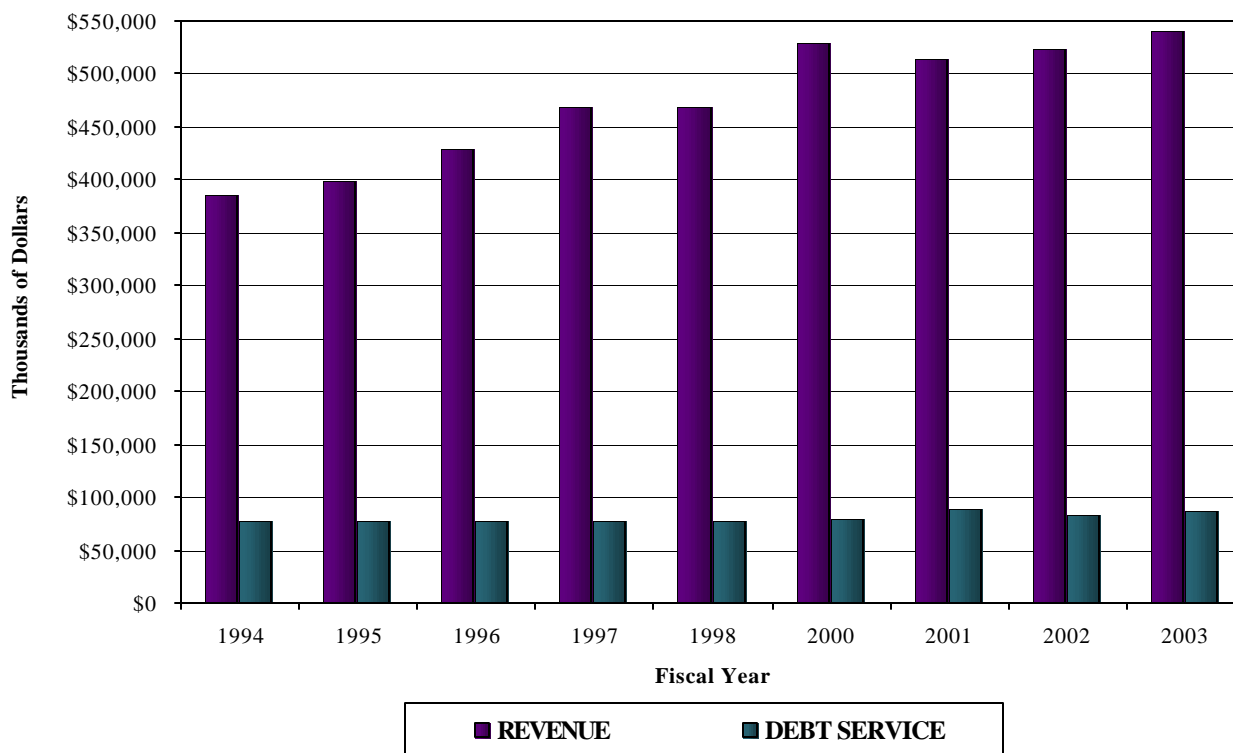
Arizona Department of Transportation
Bond Coverage
Highway User Revenue Fund Series
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Principal	Interest	Total	Pledged Revenues /1	Coverage
2003	\$ 44,490	\$ 41,932	\$ 86,422	\$ 540,540	6.3
2002	45,365	38,534	83,899	523,326	6.2
2001	52,055	36,581	88,636	513,890	5.8
2000	46,270	33,994	80,264	528,721	6.6
1999	43,805	31,090	74,895	509,935	6.8
1998	43,405	33,266	76,671	468,240	6.1
1997	40,970	36,148	77,118	468,542	6.1
1996	38,430	38,770	77,200	429,825	5.6
1995	36,330	40,974	77,304	399,605	5.2
1994	33,425	44,037	77,462	385,844	5.0

SOURCES: Highway User Revenue Fund Schedule 1 Summary For Revenue Collected
Monthly Reports MV675577-1 fiscal years 1994 through 2003;
Debt Service Funds - fiscal years 1994 through 2003.

/1 For fiscal years 1994 through 1996, net of 7% distributed to cities with a population greater than 300,000 persons. For fiscal years 1997 and after, includes vehicle license tax revenues distributed directly to the State Highway Fund.

Highway User Revenue Fund Series Bond Coverage



Arizona Department of Transportation
Bond Coverage
Regional Area Road Fund Series
For the fiscal year ended June 30
(Thousands of Dollars)

Fiscal Year	Principal	Interest	Total	Revenues	Coverage
2003	\$ 190,415	\$ 31,533	\$ 221,948	\$ 268,721	1.2
2002	163,455	35,445	198,900	267,563	1.3
2001	156,865	40,035	196,900	264,722	1.3
2000	128,805	42,609	171,414	248,596	1.5
1999	106,765	43,251	150,016	229,470	1.5
1998	82,765	40,512	123,277	209,263	1.7
1997	78,015	45,248	123,263	192,257	1.6
1996	76,955	46,209	123,164	178,413	1.4
1995	57,930	47,320	105,250	160,319	1.5
1994	54,710	49,347	104,057	142,846	1.4

SOURCE: Maricopa County Regional Area Road Fund Report.

NOTE: Bond coverage ratio is based upon total Maricopa County Transportation Excise Tax collections.

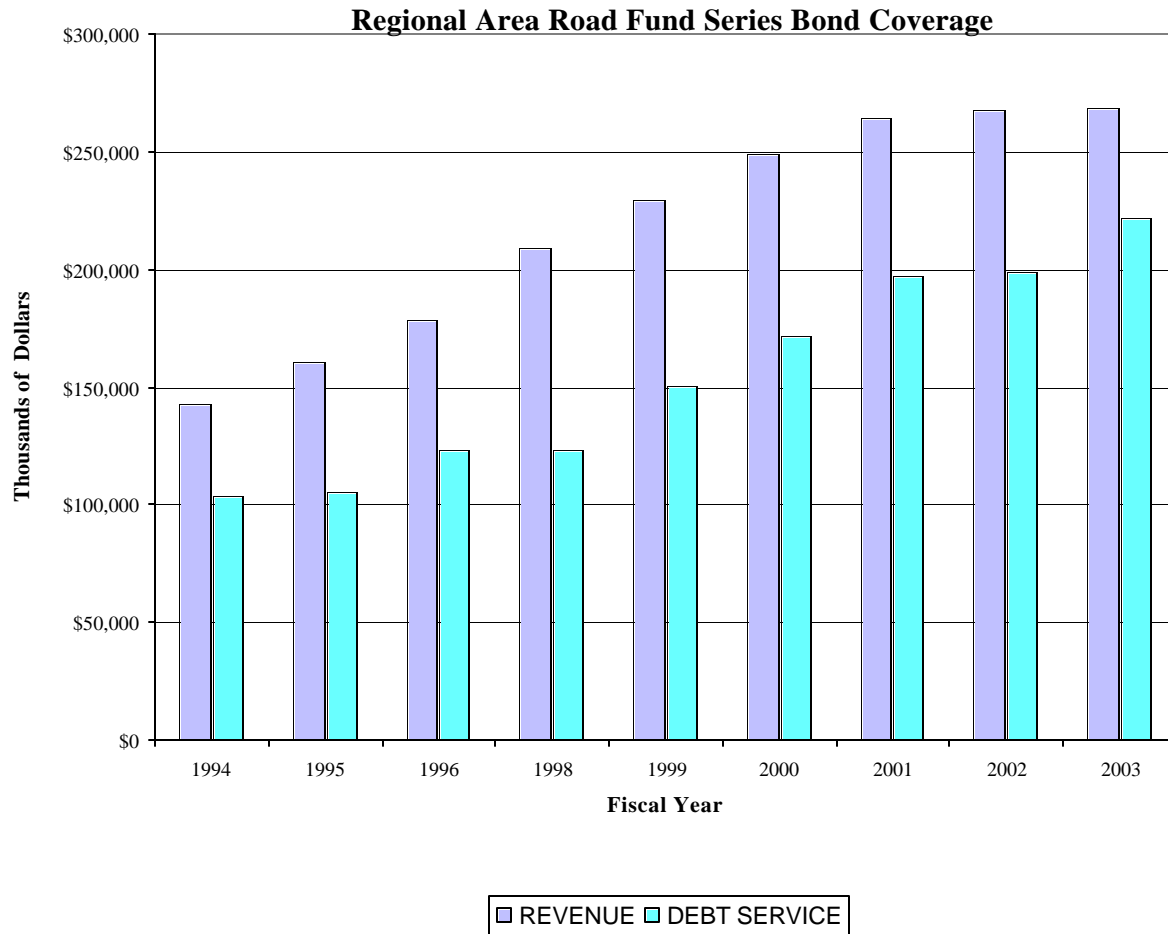


Table 11

Arizona Department of Transportation
 Total Public Road Mileage By Highway Class and Governmental Ownership
 For the calendar year ended December 31, 2002
 (With comparative totals for the calendar year ended December 31, 2001)
 (In Centerline Miles)

FUNCTIONAL CLASSIFICATION	STATE	COUNTY	MUNICIPAL	FEDERAL	TOTAL	
					2002	2001
RURAL:						
Interstate Freeway	996	-	-	-	996	996
Principal Arterial	1,118	33	29	7	1,187	1,186
Minor Arterial	1,155	85	34	-	1,274	1,257
Major Collector	1,848	1,502	281	842	4,473	4,479
Minor Collector	367	1,162	93	667	2,289	2,303
Local	501	14,299	2,417	10,233	27,450	27,019
TOTAL RURAL	5,985	17,081	2,854	11,749	37,669	37,240
URBAN:						
Interstate Freeway	172	-	-	-	172	172
Urban Expressway	142	2	9	-	153	143
Principal Arterial	255	67	678	-	1,000	1,001
Minor Arterial	118	239	911	6	1,274	1,272
Urban Collector	6	424	1,278	24	1,732	1,734
Local	123	1,713	12,866	486	15,188	13,682
TOTAL URBAN	816	2,445	15,742	516	19,519	18,004
STATEWIDE COMPOSITE:						
Freeways and Expressways	1,310	2	9	-	1,321	1,311
Arterials	2,646	424	1,652	13	4,735	4,716
Collectors	2,221	3,088	1,652	1,533	8,494	8,516
Locals	624	16,012	15,283	10,719	42,638	40,701
TOTAL STATEWIDE	6,801	19,526	18,596	12,265	57,188	55,244

Source: Arizona's Highway Performance Monitoring System (HPMS) 2002 & 2001 Data

ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report was prepared by Financial Management Services, Fiscal Operations:

Craig Rudolphy, MBA, CGFM, CPA, CPFO
Theresa Simms, MBA, CGFM, CPA
Lawrence H. Ehrke, Jr., MBA
Julie Phelps, MS
Stanley Brown, MS
Mantian Xu, MA
Richard Gromoll, MBA
Christopher Kipiani
Trang Huynh
Sheryl Bodmer, CPA
Marsha Bloom, CPA
Patricia Markiw, CPA

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